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TORONTO, ONTARIO

1  
2 ROYAL COMMISSION ON TAXATION

3  
4 Hearing held in the Board of  
5 Transport Commissioners  
6 Hearing Room, Ottawa, Ontario,  
7 on Tuesday, the 16th day of  
8 April, 1963.

9  
10 COMMISSION:

11 MR. KENNETH LeM. CARTER -- Chairman

12 MR. J. HARVEY PERRY

13 MR. A. EMILE BEAUVAIS

14 MR. DONALD G. GRANT

15 MRS. S. M. MILNE

16 MR. CHARLES E. S. WALLS

17  
18 LEGAL ADVISER:

19 MR. J. L. STEWART

20  
21 RESEARCH DIRECTOR:

22 PROF. D. G. HARTLE

23  
24 SECRETARY:

25 MR. G. L. BENNETT  
26  
27  
28  
29  
30







ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF OTTAWA, ONTARIO

April 16, 1963

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Ottawa, Ontario,  
Tuesday,  
April 16, 1963.

1  
2 ---On commencing at 9:30 a.m.

3 THE CHAIRMAN: Good morning, ladies and  
4 gentlemen. This is the opening hearing of the Royal  
5 Commission on Taxation.

6 You see up on the top level the Commissioners.  
7 I will <sup>not</sup> introduce them to you. Their names are all set  
8 out in the papers before you, and immediately below are  
9 members of the staff of the Commission. I draw  
10 particular attention to our Legal Adviser, Mr. J. L.  
11 Stewart, the Secretary of the Commission, Mr. Gordon  
12 Bennett, our Research Director, Professor Hartle, is  
13 sitting in the front row, Mr. John Thompson, immediately  
14 before me, senior member of the research staff, who  
15 will accompany the Commission during the hearings.

16 I don't think I will proceed further. The  
17 other members are essentially here to make the lives of  
18 the Commissioners a little more comfortable.

19 We have here this morning besides the  
20 "participants" ---I will explain that to you later --  
21 members of the press, whom we are delighted to have  
22 with us; and, of course, our reporters from the contract-  
23 ing firm of Angus, Stonehouse & Company. I think you are  
24 all aware that they will prepare transcripts of these  
25 proceedings as well as copies of the submissions, which  
26 transcripts and submissions will be available publicly,  
27 for a charge. I don't really know how much that is, but  
28 the amount of that you can learn from our Secretary.

29 We have also, I think, in attendance certain  
30



1 persons who are preparing to appear before us somewhat  
2 later on, and I believe they are here to endeavour to  
3 sample the atmosphere, and I hope it continues to smell  
4 sweet.

5 Mr. Bennett, I think we will enter on the  
6 record the Order in Council appointing the Commission.  
7 Would you please proceed with that.

8 THE SECRETARY: Mr. Chairman, ladies and  
9 gentlemen, I would like to read into the record a  
10 certified true copy of a Minute of a Meeting of the  
11 Committee of the Privy Council, approved by His  
12 Excellency the Governor General on September 25, 1962,  
13 designated as Order in Council P.C. 1962-1334.

14 The Committee of the Privy Council, on the  
15 recommendation of the Right Honourable John George  
16 Diefenbaker, the Prime Minister, advise that:

17 Mr. Kenneth LeM. Carter

18 Mr. J. Harvey Perry

19 Mr. A. Emile Beauvais

20 Mr. Donald G. Grant

21 Mrs. S. M. Milne

22 Mr. Charles E. S. Walls

23 be appointed Commissioners under Part I of the  
24 Inquiries Act, to inquire into and report upon the  
25 incidence and effects of taxation imposed by  
26 Parliament, including any changes made during the  
27 currency of the inquiry, upon the operation of the  
28 national economy, the conduct of business, the  
29 organization of industry and the positions of  
30 individuals; and to make recommendations for



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28 national economy, the conduct of business, the  
29 organization of industry and the positions of  
30 individuals; and to make recommendations for



1 improvements in the tax laws and their administration  
2 that may be consistent with the maintenance of a  
3 sufficient flow of revenue; and without restricting  
4 the generality of the foregoing, the Commission shall  
5 consider and report upon:

6 (a) the distribution of burdens among tax-  
7 payers resulting from existing rates, exemptions,  
8 reliefs and allowances provided in the personal  
9 and corporation income taxes, estate taxes and  
10 sales and excise taxes, taking into account also  
11 the jurisdiction and practices of the provinces  
12 and municipalities;

13 (b) the effects of the tax system on  
14 employment, living standards, savings and  
15 investment, industrial productivity, and  
16 economic stability and growth;

17 (c) provisions in existing laws which may  
18 have given rise over the years to anomalies  
19 or inequities or which may require action to  
20 close loopholes which permit the use of  
21 devices to avoid fair taxation;

22 (d) the effects of the income, sales and  
23 excise taxes and estate duties on income and  
24 investment flows which affect the balance of  
25 international payments and economic relations  
26 with other countries;

27 (e) the means whereby the tax laws can best  
28 be formulated to encourage Canadian ownership of  
29 Canadian industry without discouraging the flow  
30 of investment funds into Canada;





1 (f) the changes that may be made to  
2 achieve greater clarity, simplicity and  
3 effectiveness in the tax laws or their  
4 administration; and

5 (g) such other related matters as the  
6 Commissioners consider pertinent or relevant  
7 to the specific or general scope of the  
8 inquiry.

9 The Committee further advise:

10 1. That the Commissioners be authorized to  
11 exercise all the powers conferred upon them by  
12 section 11 of the Inquiries Act and be assisted to  
13 the fullest extent by Government departments and  
14 agencies;

15 2. That the Commissioners adopt such procedures  
16 and methods as they may from time to time deem  
17 expedient for the proper conduct of the inquiry and  
18 sit at such times and at such places in Canada as  
19 they may decide from time to time;

20 3. That the Commissioners be authorized to  
21 engage the services of such counsel, staff and  
22 technical advisers as they may require at rates of  
23 remuneration and reimbursement to be approved by  
24 the Treasury Board;

25 4. That the Commissioners report to the  
26 Governor in Council with all reasonable despatch,  
27 and file with the Dominion Archivist the papers  
28 and records of the Commission as soon as reasonably  
29 may be after the conclusion of the inquiry; and  
30



1           5. That Mr. Kenneth LeM. Carter be Chairman  
2 of the Commission.

3           This is signed by R. B. Bryce, Clerk of  
4 the Privy Council.

5           Mr. Chairman, I enter as Exhibit 1 the  
6 Commission appointing you as Commissioner and Chairman  
7 of this Royal Commission and as Commissioners Mrs. Milne,  
8 Messrs. Perry, Beauvais, Grant and Walls.

9           This Commission is signed by the Deputy Attorney  
10 General of Canada and is registered by the Technical  
11 Deputy Registrar General as Reference No. 169843. This  
12 is Exhibit 1.

13  
14           ---EXHIBIT NO. 1: Certified true copy of a  
15 Minute of a Meeting of the  
16 Committee of the Privy Council,  
17 approved by His Excellency the  
Governor General on the 25th  
September, 1962, designated as  
Order in Council P.C. 1962-1334,  
appointing the Commission.

18           MR. AUDCENT:

19           Copie certifiée conforme au procès-verbal  
20 d'une réunion du Comité du Conseil privé,  
21 approuvé par Son Excellence le Gouverneur  
22 général le 25 septembre 1962.

23  
24           Sur avis conforme du Premier ministre,  
25 le très honorable M. John George Diefenbaker,  
26 le Comité du Conseil privé recommande que

27           M. Kenneth LeM. Carter,

28           M. J. Harvey Perry,

29           M. A.-Emile Beauvais,

30           M. Donald G. Grant,



Madame S.M. Milne,

M. Charles E.S. Walls

soient nommés Commissaires en vertu de la  
Partie I de la Loi sur les enquêtes pour faire  
enquête et rapport sur l'incidence et les effets  
des impôts décrétés par le Parlement, y compris  
toutes les modifications qui seront apportées  
au cours de l'enquête, sur le fonctionnement de  
l'économie nationale, la marche des affaires,  
l'organisation de l'industrie et les postes des  
particuliers, et présenter des recommandations  
pour des améliorations dans les lois fiscales  
et leur application pouvant être compatibles  
avec le maintien d'une source suffisante de  
revenus; et, sans restreindre la généralité de  
de ce qui précède, pour procéder a une etude et  
faire rapport sur

a) la répartition des fardeaux parmi  
les contribuables résultant des taux,  
exemptions, dégrevements et allocations  
actuellement prévus dans l'impôt sur le  
revenu des particuliers et des corporations,  
l'impôt sur les biens transmis par décès,  
ainsi que dans les taxes de vente et d'accise,  
en tenant compte également de la juridiction  
et des pratiques des provinces et des  
municipalités;

b) les effets du régime fiscal sur  
l'embauchage, les niveaux de vie, l'épargne  
et les placements, la productivité





1 industrielle ainsi que la stabilité et  
2 l'essor économiques;

3 c) les dispositions dans les lois  
4 existantes ayant pu donner lieu au cours des  
5 années à des anomalies ou injustices ou  
6 exigeant des mesures pour corriger les  
7 imperfections qui permettent le recours à  
8 des moyens en vue d'éluder une juste  
9 imposition;

10 d) les effets de l'impôt sur le revenu,  
11 des taxes de vente et d'accise et des droits  
12 sur les biens transmis par décès, sur le  
13 revenu et les placements, lesquels effets  
14 influent sur la balance des paiements  
15 internationaux et sur les relations économiques  
16 avec d'autres pays;

17 e) la meilleure manière de formuler les  
18 lois fiscales pour encourager les Canadiens  
19 à devenir propriétaires de l'industrie  
20 canadienne sans décourager l'entrée de  
21 capitaux d'investissement au Canada;

22 f) les changements à effectuer pour en  
23 arriver à une plus grande clarté, simplicité  
24 et efficacité dans les lois fiscales ou leur  
25 application; et

26 g) les autres matières connexes que les  
27 Commissaires estiment pertinentes ou utiles  
28 à la portée spécifique ou générale de  
29 l'enquête.  
30



1 Le Comité recommande de plus

2 1. Que les Commissaires soient  
3 autorisés à exercer tous les pouvoirs que leur  
4 confère l'article 11 de la Loi sur les enquêtes  
5 et qu'ils reçoivent, dans toute la mesure  
6 possible, l'aide des ministères, départements et  
7 organismes du gouvernement;

8 2. Que les Commissaires adoptent la  
9 procédure et les méthodes qu'ils peuvent au  
10 besoin juger utiles pour la poursuite régulière  
11 de l'enquête et siègent aux dates et aux  
12 endroits au Canada qu'ils pourront décider à  
13 l'occasion;

14 3. Que les Commissaires soient autorisés  
15 à retenir au besoin les services des avocats,  
16 du personnel et des conseillers techniques à  
17 des taux de rémunération et de remboursement  
18 sujets à l'approbation du Conseil du Trésor;

19 4. Que les Commissaires fassent rapport  
20 au Gouverneur en conseil, avec toute la  
21 diligence raisonnable, et déposent au bureau de  
22 l'Archiviste fédéral les documents et registres  
23 de la Commission aussitôt qu'il sera  
24 raisonnablement possible après la conclusion de  
25 l'enquête; et

26 5. Que M. Kenneth LeM. Carter soit  
27 président de la Commission.

28 Le Greffier du Conseil privé,

29 R.B. Bryce.  
30



1 THE CHAIRMAN: Mr. Secretary, these are  
2 both entered on the record and they will be in print.

3 THE SECRETARY: Yes, Mr. Chairman.

4 THE CHAIRMAN: Briefly, I would like to  
5 remark that in order to carry out the charge imposed  
6 upon the Commission it proceeds upon two fronts. It  
7 has a research staff on tax structure and economic  
8 studies. At the present time, we will hear a number of  
9 individuals and organizations who come before us. We  
10 have given the name of "participants" to these people.  
11 It seems like a happy choice of a term. We are not sure  
12 whether it has been used by previous Royal Commissions,  
13 but these people will appear before us as participating  
14 in the search for solutions to these problems.

15 In order to communicate freely with other  
16 participants, we have adopted the use of a series of  
17 memoranda. These memoranda set forth the rules of the  
18 road; they give schedules of the places and of the times  
19 of the hearings.

20 So far as we think it will be useful,  
21 these hearings will be reasonably informal; questions  
22 will be posed by Commissioners and sometimes by Mr.  
23 Stewart, who, as I have already indicated, is our Legal  
24 Adviser and will serve as a counsel as we may wish.

25 The participants are invited to communi-  
26 cate with our research staff and our offices in Ottawa.  
27 We believe that such co-operation between participants  
28 and our staff will produce the best results.

29 This Commission will view participants  
30 as responsible citizens seeking with us the best results





1 for the national good. We recognize many will bring  
2 forth matters primarily of concern to themselves. We  
3 welcome hearing from them, because the review must be  
4 complete. We must know all the troubles of the tax-  
5 payers.

6 The list of the participants is by no means  
7 closed, and we earnestly hope that all with a deep  
8 interest in taxes or who have a learning of this  
9 difficult subject will offer their advice. To achieve  
10 a good result will require all the skills that we can  
11 find.

12 Now, today we have appearing before us the  
13 Canadian Tax Foundation, and I would ask our Secretary  
14 to make the usual introductions.

15 THE SECRETARY: Mr. Chairman, ladies and  
16 gentlemen, as the Chairman has said, we have the officers  
17 of the Canadian Tax Foundation with us this morning:  
18 Mr. A. D. Russell, C.A., as Chairman, Mr. John Marler, Q.C.,  
19 Past Chairman, and Mr. Ronald Robertson as Director.  
20 Mr. Russell will speak first to the brief, which I now  
21 enter in the record as Exhibit No. 2.

22  
23 ---EXHIBIT NO. 2: Brief of Canadian Tax  
24 Foundation.

25 THE CHAIRMAN: Thank you, Mr. Secretary.

26 Mr. Russell, will you make yourself comfortable.  
27 Before you start, I would like to say one word of intro-  
28 duction to the Tax Foundation.

29 I think it is only proper that we commence the  
30 hearings with the Canadian Tax Foundation, which is



1 now recognized as the No. 1 long term credit organization  
2 on Canadian taxes. It was brought into existence, to  
3 my recollection, about eighteen years ago to maintain  
4 an expert view of our taxes. In my opinion, it has  
5 fulfilled this role. This Commission has already  
6 received from the Tax Foundation a copy of its brief  
7 for its records. We have received advice on many  
8 subjects, and the high quality of this particular sub-  
9 mission will, of course, become apparent as we proceed  
10 during the morning.

11 Mr. Russell, will you proceed.

12  
13 CANADIAN TAX FOUNDATION

14  
15 APPEARANCES:

16 Mr. A. D. Russell, C.A. - Chairman

17 Mr. John de M. Marler, Q.C. - Past Chairman

18 Mr. Ronald Robertson - Director

19  
20  
21 --

22  
23  
24  
25 --



1 MR. RUSSELL: Thank you, Mr. Chairman.

E/AG/je  
2 Mr. Chairman and members of the Commission, I would  
3 like first of all to indicate how honoured we feel  
4 as the Tax Foundation in being asked to be the  
5 first to appear before you, and we are further  
6 honoured by the fact that the Past Chairman of our  
7 organization has been selected as your Chairman,  
8 and that also on your Commission are included our Past  
9 Director, Mr. Perry, and a Past Governor, Mr. Beauvais.  
10 It is indeed complimentary to the Foundation that such  
11 has taken place, Mr. Chairman, and we certainly appreciate  
12 the fact.

13 I would just like, sir, if I may, to give  
14 a very brief preliminary statement before going on to  
15 the brief itself. Our statement has been filed, and it  
16 has been prepared in accordance with the request of  
17 the Chairman of the Commission, as set out in your letter  
18 of last December, that our statement should raise issues  
19 and not try to settle them. In compliance with this re-  
20 quest an effort has been made to state issues in a broad  
21 context, leaving it to others to deal with the particular  
22 aspects of our tax laws which give rise to specific  
23 difficulties.

24 As you are aware, and as you have already  
25 stated, Mr. Chairman, the Foundation is an in-  
26 dependent research organization sponsored by the  
27 Canadian Institute of Chartered Accountants and the  
28 Canadian Bar Association. As you have also indi-  
29 cated, it is the Foundation's purpose to conduct,





1 initiate and encourage impartial, expert research into  
2 problems of taxation and government finance, and it  
3 publishes the results thereof. These studies have been  
4 made available to your Commission, and I am sure your  
5 Commission will be assisted by the research which is  
6 being carried out at Queen's University, this research  
7 being on the effects of taxation on Canada's economic  
8 growth. This project has been sponsored, and is being  
9 paid for by the Foundation, and I understand the  
10 research staff who are conducting this project are  
11 working in co-operation with your research staff.

12 We do not wish to extend our statement beyond  
13 the points contained in it, but we wish to make the  
14 observation that the Commission, when finally formulating  
15 its recommendations, will be faced with a question which  
16 is inherent in matters of taxation, namely, the weight,  
17 if any, that should be given to the political (in the  
18 broad sense of the term) palatability of its recommenda-  
19 tions. With respect, we venture to interpret the  
20 Commission's terms of reference as calling upon it to  
21 deal with the issues in terms of economic and revenue,  
22 rather than political effects. We say this in the  
23 conviction that Canadians of all persuasions are anxious  
24 at this time to have recommendations which, if  
25 implemented, would be likely to produce a tax structure  
26 that has the least possible repressive effects on the  
27 growth of the Canadian economy. We point this out in  
28 order to indicate our support of the position that  
29 members of this Commission will, we feel sure, wish to  
30 take.



1 As indicated in our statement, we recognize  
2 the complexity of the issues with which the Commission  
3 and its staff have been called upon to consider. We  
4 commend the Commission for the thorough, energetic and  
5 imaginative way it and its staff have approached their  
6 task. We would refer particularly to Memorandum No. 10  
7 which formulates in a most useful fashion many of the  
8 questions which we have raised in our statement.

9 Perhaps the Commission might wish to consider  
10 the use of interim reports on certain key questions.  
11 For instance, the treatment of undistributed income of  
12 corporations. Such a report might state what appeared  
13 to be the best alternative approaches, in sufficient de-  
14 tail to permit concrete comment on their strength and  
15 weaknesses to be submitted in writing at a later date for  
16 consideration by your Commission. The Foundation would  
17 be prepared, if the Commission considers it appropriate,  
18 to try to enlist the aid of its members in examining  
19 such alternatives. We recognize the limitations of  
20 time on such a procedure, and offer the suggestion for  
21 your consideration with an appreciation of the possible  
22 practical difficulties involved.

23 The observations contained in our brief are  
24 made without any formal canvass of the individual views  
25 of our members, and with regard only to the general  
26 interest of Canada as a whole, and not to the interests  
27 of any particular or group.

28 Our brief is rather an enlightened survey by  
29 the permanent staff of the Foundation, Mr. Chairman, in  
30 whose ability the Governors have the utmost confidence.



B-4

1 Mr. Robertson today is representing that  
2 staff, and we feel that it is to him that we will have  
3 to refer most of the questions which we feel sure you  
4 and the Commission may wish to ask, Mr. Chairman.

5 We would now place ourselves at your disposal,  
6 to proceed as you desire, whether you wish us to read  
7 our brief or not, we are entirely in your hands now,  
8 Mr. Chairman.

9 THE CHAIRMAN: Thank you very much indeed.  
10 We have already had one very interesting suggestion from  
11 you just now, and of course there are many more contained  
12 in your brief. I would think that we might perhaps  
13 proceed to address a few questions to you, Mr. Robertson.  
14 Of course, in addressing questions it would be our  
15 intention to seek amplification of what you have  
16 already stated here, for better understanding. We are  
17 not going to direct questions which endeavour to come  
18 to a solution of the great problems of taxation.

19 Before directing questions, is there anything  
20 Mr. Robertson would like to say in a general way to the  
21 brief?

22 MR. ROBERTSON: Mr. Chairman, I might simply  
23 preface any discussion by question and answer by one  
24 point that is mentioned in the brief, and that is perhaps  
25 to say what I feel a number of people now feel that have  
26 been working towards presentations before this Commission,  
27 that while many may still dispute the fact that I think  
28 there is an appreciation that at this moment, as the  
29 Commission begins its formal work, that we can say that  
30 Canada now has a well-developed tax structure, which





1 despite its imperfections does compare favourably to  
2 many in the world, and that this may be the perspective  
3 from which we might examine our structure more closely.  
4 We feel that through this Commission Canada, because  
5 of its present position, does have a greater opportunity  
6 than is open to many other countries to devise the very  
7 best structure that is possible.

8 I just introduce that to show our general  
9 feeling at this time.

10 THE CHAIRMAN: Thank you very much indeed.  
11 We have a number of questions which will be addressed  
12 to you by various members of the Commission, and I  
13 think without further reference to the Chair the  
14 Commissioners might proceed to raise questions.

15 COMMISSIONER WALLS: Well, gentlemen, to  
16 start the questions I would like to go back to the  
17 beginning of your brief, to paragraph 5, in which you  
18 make a statement that I am sure most people will be  
19 in accord with, and that statement is that the high level  
20 of taxation is at the root of the concern about taxation  
21 in this country. Now, as I said, I am quite sure  
22 that everybody would agree with you that they feel their  
23 taxes are too high. However, I am quite sure that the  
24 Tax Foundation didn't use that as the basis for making  
25 that statement, and I wonder if you would clarify on  
26 what basis you make this claim, whether on relationship  
27 to gross national product in comparison with other  
28 countries, or on what basis you arrive at the conclusion  
29 our taxes at the present time are too high?  
30



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1 MR. ROBERTSON: We did have partially in mind  
2 the feeling that taxes are too high, though we appreciate  
3 that this feeling has probably prevailed from time  
4 immemorial, but I think it is based on the feeling that  
5 the higher the taxes, and we certainly do have high  
6 taxes, do aggravate whatever ills there are in the tax  
7 system. The inequities become more noticeable  
8 and more aggravating. Mr. Walls mentioned the compari-  
9 son with other countries. We have suggested here  
10 that other countries do have higher tax burdens, and  
11 of course this is quite true. In comparisons Canada  
12 finds that a number of other countries, including  
13 West Germany, France, Sweden, the United Kingdom, the  
14 United States, and so forth, do have comparable or  
15 heavier burdens on the basis of the very few statistics  
16 that are available in this field. The other roots  
17 of the difficulties, and perhaps the other factors,  
18 which have caused the concern about the tax system would  
19 appear to be the general economic conditions that  
20 Canada and other countries have been facing in recent  
21 years, and the increasing competitive nature of world  
22 trade, and I think the concern has been part of a general  
23 feeling that we should examine every facet of our  
24 economic life to see what can be improved, and to thereby  
25 make it more competitive.

26 Another background reason that has caused us  
27 concern has been a tendency, a justifiable one in some  
28 respects, to reason from particular instances of diffi-  
29 culties in the tax system to the more general feeling  
30 that the tax system could well be re-examined and over-



B-7

1 hauled. The level of taxes themselves has caused  
2 concern, not only here, but as the Commissioners are  
3 aware, in the United States, and this applies more to  
4 the structure of the tax rates rather than perhaps what  
5 you might call the total amount of taxes taken out of  
6 the economy.

7 President Kennedy as recently as January, you  
8 may recall, had this to say about their system. In  
9 reference to the rates he said they were originally  
10 designed to hold back war and post-war inflation, and  
11 our present income tax rate structure now holds  
12 back consumer demand, interest and investment. He was  
13 referring to the American structure, which differs in  
14 some respects from ours, but there are some similarities.

15 THE CHAIRMAN: In continuing this, would you  
16 have considered how to alleviate the major burden of  
17 taxation? I am considering the fact that possibly user  
18 taxes are not as great a burden as more general types  
19 of taxes. Again, some types of expenditure on social  
20 security may not be as great a burden as other forms  
21 of taxes, and when one compares one country against the  
22 other I would imagine you must have regard to the  
23 different natures of the taxes, and the purposes for  
24 which the money is used.

25 MR. ROBERTSON: Well Mr. Chairman, this term  
26 burden is perhaps a difficult one. It may give rise to a  
27 thought of pressing people down. It is a term that is  
28 used in describing the tax load if you like. It is not  
29 intended to suggest a great weight on the back of anybody,  
30 though many of us feel that that is the case. The





B-8

1 comparison that we have used, or the word as I have  
2 used it here, is simply intended to indicate the amount  
3 of total taxation as a percentage of gross national  
4 product, or national income, as a standard way of  
5 measuring it. There is no magic in that word, and when  
6 they are referred to here we do have in mind a comparable  
7 basis, which does take into account the social security  
8 charges in most cases.

9 I can't answer as to the relevant facts of  
10 user charges as a burden in the narrower sense.

11 COMMISSIONER PERRY: Just as a matter of  
12 technicality, what sets of comparisons do you use in  
13 making these international comparisons? What sets  
14 of figures have been found to be most reliable?

15 MR. ROBERTSON: The figures we have used have  
16 been derived from the United Nations statistics, their  
17 year book on national accounts statistics. The  
18 difficulty, of course, is in getting the comparable  
19 figures, and unfortunately they are always quite a bit  
20 behind.

21 COMMISSIONER GRANT: Mr. Robertson, if I am  
22 not advancing at too rapid a rate, I would like to refer  
23 to paragraphs 13 and 14 of the brief. In paragraph 13  
24 it is stated "The central questions at this juncture are:

25 (1) What aspects of the Canadian tax system  
26 create a drag on the economic progress  
27 of Canada and Canadians?

28 (11) How can they be modified or eliminated?

29 14. It would appear that the first step in seek-

30



1 " ing answers to these questions is to sort  
2 ous, and if possible to establish, what might  
3 be termed a unified theory of taxation ---"

4 Would you feel like elaborating on that  
5 to some extent?

6 MR. RUSSELL: Mr. Chairman, may I interrupt  
7 and suggest, if it is in order, that Mr. Robertson  
8 remain seated?

9 THE CHAIRMAN: Yes, please. Whatever is  
10 comfortable.

11 MR. RUSSELL: Thank you, Mr. Chairman.

12 MR. ROBERTSON: Thank you Mr. Chairman.  
13 Mr. Grant, I can't elaborate to any great extent on this.  
14 The main purpose of the Foundation-sponsored study at  
15 Queen's was to seek enlightenment on the relationships  
16 of taxation to economic growth. The study is now  
17 in process of being -- or the research is now in  
18 progress. I don't believe there has been this type of  
19 unified theory, or any particular theory of taxation,  
20 as it affects growth, and I believe this is one of the  
21 areas where the Commission research group will throw  
22 a great deal of light, and one that many people look  
23 forward to seeing.

24 MR. GRANT: You wouldn't say that there is  
25 any precedent that has been established?

26 MR. ROBERTSON: No, not that I am aware of,  
27 no. You are into some very new and fresh ground here,  
28 but it is very important ground.

29 THE CHAIRMAN: Do you, Mr. Grant, understand  
30 what is meant by a unified theory of taxation? I am



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1 afraid that I am not aware of it. I think I know what  
2 the word unified means by itself, and what taxation  
3 means. Is it trying to find one type of taxation  
4 suitable for stimulating economic growth? Is that it?

5 MR. ROBERTSON: Well, unified here simply  
6 means that you have to take one position or another on  
7 it, and you have to more or less relate the various  
8 aspects of the tax system to these theories. It has  
9 to be brought together with the theories of growth.  
10 There is nothing deeper than that intended by it.

11 COMMISSIONER BEAUVAIS: When you mentioned  
12 total tax burden in Canada do you include municipal,  
13 provincial and school taxes?

14 MR. ROBERTSON: Yes, the burden we were  
15 referring to in the statistics earlier includes the  
16 entire range for all levels of government.

17 COMMISSIONER BEAUVAIS: I wish to refer to  
18 section 10 of your brief. You have indicated that the  
19 Commission should consider the effects of tax levels  
20 in this country on the ability of Canadian producers  
21 to compete at home and abroad. Are there any particular  
22 areas, or groups of business or industry, which warrant  
23 special concern?

24 MR. ROBERTSON: Mr. Beauvais, one that comes  
25 to my mind in this most forcibly is an examination of  
26 the capital cost allowances in the various countries.  
27 There has been a considerable amount of interest in this.  
28 I think while the Canadian capital cost allowance is  
29 recognized as one of the best in its construction, and  
30 at one time was considered to be most generous in





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1 comparison with the others, there is evidence that  
2 in recent years the European countries have gradually  
3 overtaken it in generosity. This may not be a reason  
4 for increasing the capital cost allowances, but it  
5 is definitely an area that I think would be examined  
6 with benefit. The United States and the United Kingdom  
7 in the main fields of industrial machinery and  
8 equipment and buildings, now are considerably more  
9 generous in these allowances than Canada, though we are  
10 on a par with West Germany in the industrial equipment  
11 field, and we do have some incentive provisions which  
12 mean that if equipment falls within that we are right  
13 up to the general level, but outside of the scope of  
14 that it might be considered that some improvement might  
15 be useful. There are arguments on both sides of course,  
16 as to whether or not this is an appropriate thing to do,  
17 but it would bear examination I believe.

18 COMMISSIONER BEAUVAIS: But of course the  
19 capital cost allowance would increase the cost of  
20 production, because we are talking about mainly exports  
21 in that section. That would make it difficult for us  
22 to compete with the other countries?

23 MR. ROBERTSON: Do you mean by reducing the  
24 capital cost allowance?

25 COMMISSIONER BEAUVAIS: Yes, if you pay the  
26 capital cost allowance it will increase the cost of the  
27 product.

28 MR. ROBERTSON: I think that perhaps if the  
29 capital cost allowance is increased, if I follow you  
30 correctly, it should reduce the tax burden, and to the



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1 extent that this would help prices it might improve  
2 our position somewhat. I am not sure of how it could  
3 be done.

4 COMMISSIONER BEAUVAIS: If you have a tax  
5 allowance of 52 per cent, the other 48 per cent will  
6 be added to the cost of the product. Don't you think  
7 so?

8 MR. ROBERTSON: Perhaps.

9 THE CHAIRMAN: That depends, of course, on  
10 whether one charges the product with the full capital  
11 cost.

12 COMMISSIONER BEAUVAIS: Yes.

13 THE CHAIRMAN: And in that connection I would  
14 like to raise this question, if I might. Would you  
15 not say that the Canadian system, with capital cost  
16 allowance, whether or not it is as generous as other  
17 countries, is in fact an incentive to those people who  
18 use depreciable equipment, or  
19 does the evidence not so indicate, because in many cases  
20 taxpayers write more capital cost than they take  
21 depreciation, and to the extent that that is done surely  
22 that indicates that they are writing off something  
23 beyond what is appropriate to the determination of  
24 income?

25 MR. ROBERTSON: That has already concerned me,  
26 whether they are not giving incentives, and if so it may  
27 be a good idea to increase that incentive.

28 THE CHAIRMAN: I don't know, but is it not so?

29 MR. ROBERTSON: I would agree, Mr. Chairman,  
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1 that there is definitely an incentive effect, if you  
2 regard the incentive as the difference between what  
3 an accountant would take as the actual depreciation  
4 and the capital allowance, and when I refer to the  
5 generosity it is in this what you might call incentive  
6 area. There just seems to be more division between  
7 actual depreciation and the capital cost allowance in  
8 some of these other countries. I would agree with you,  
9 yes.

10 THE CHAIRMAN: Well, you have in here dis-  
11 cussed neutrality, and it seems to me that the  
12 Commission must try to find out what that is first of  
13 all, or where that lies, and perhaps there is no such  
14 thing. We will come to that later, but when we dis-  
15 cussed capital cost allowances I have in mind what is  
16 neutrality as between those people with depreciable  
17 assets and those people without depreciable assets.  
18 I don't know.

19 MR. ROBERTSON: I am afraid I don't know  
20 either Mr. Chairman. Tax neutrality, the theory is  
21 all things to all people very often, and much depends  
22 on the direction you choose to go, and it is very  
23 difficult to point out the direction you are going even  
24 when you make out your intention.

25 COMMISSIONER PERRY: It depends on whose tax  
26 is going to be neutralized.

27 MR. RUSSELL: I think it can be considered an  
28 incentive. It has a string to it. In your normal  
29 expectations you get to the point where the reverse is  
30 true, and you have run out of capital cost allowances.





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1 THE CHAIRMAN: I suppose one can't allow  
2 that to go without pointing out that the incentive is  
3 the use of tax funds without interest.

4 MR. RUSSELL: To give an immediate advantage  
5 to the taxpayer, true. Yes, I think it does in this  
6 instance.

7 COMMISSIONER BEAUVAIS: But Mr. Robertson,  
8 you have no idea of a group of businesses or industry  
9 that would be affected by our tax structure, and  
10 especially in connection with our exports, to compete  
11 with other countries?

12 MR. ROBERTSON: No, I really don't know,  
13 Mr. Beauvais, just what industries feel that they are  
14 having difficulties with the tax structure.

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1 COMMISSIONER MILNE: Yes, Mr. Robertson. I  
2 have a note; it is in connection with paragraph 11. You  
3 mention there psychological effects and atmosphere. In  
4 the questions which have come forward from the  
5 research study has been raised the question that the  
6 psychological effect of taxation cannot be measured with  
7 any significant degree of certainty.

8 We realize that different people might view the  
9 same situation, the prevailing situation, with varying  
10 aspects and moods, what you might call psychological  
11 moods, and even the same person might view the prevailing  
12 situation with a different mood, or at another time,  
13 within a short space of time, I might say. We might  
14 call that a psychological atmosphere, mood.

15 Now, the questions I have here on this sheet  
16 from the research <sup>group</sup> deal with this particular aspect.  
17 Are there certain symptoms which would aid the  
18 Commission in measuring the significance of the  
19 psychological element? And are there any particular  
20 features of taxation in which the psychological effect  
21 warrants the attention of the Commission?

22 These are rather difficult questions, and I  
23 think that perhaps the Commission would like to have  
24 some idea of the boundaries that they might feel exist  
25 in dealing with the psychological moods or atmosphere.

26 MR. ROBERTSON: Mrs. Milne, I am afraid this  
27 is one area where we are as puzzled as perhaps the  
28 Commission may be. The introductory remarks about the  
29 difficulties I certainly concur with wholeheartedly.

30 The symptoms, I suppose, are only the complaints that



1 one hears about the tax system, and the only way that  
2 might be had to try to ascertain how much importance  
3 this has is through some actual field study in depth of  
4 taxpayer attitudes. I realize just what this would  
5 involve and, as you point out, the attitude may change  
6 the very next day. But in this psychological area, if I  
7 was asked to put my finger on the one part of it that I  
8 would think would give rise to this concern, it is the  
9 marginal rate in the personal income tax; on overtime  
10 earnings, for example, or the wage increases. This is  
11 where you hear most of the complaints.

12 Now, just how that affects people's attitudes  
13 or whether it is just shocking to them in the sense that  
14 they feel deprived of something, I don't know. This is  
15 one of the really large question marks in the whole  
16 effect of taxation.

17 THE CHAIRMAN: There is a question -- I am not  
18 at all sure it is fair at this time, but I am going to  
19 ask you now -- namely, what are taxes? We are being  
20 asked all the time whether we should go into such matters  
21 as tariffs. Well, certainly tariffs in some countries  
22 are taxes; I am not sure about Canada. But have you  
23 considered a lot of other fringe areas, too? Have you  
24 really considered in this submission which you have put  
25 before us what we should direct ourselves to as to which  
26 are taxes and which are not?

27 MR. ROBERTSON: Well, this is a definitional  
28 problem which exists whenever you examine anything  
29 in the Government field, and you just have to make the  
30 <sup>that</sup> choice/seems most appropriate for the thing you are





1 studying. There is no sure answer to that. When you  
2 are making comparisons, I think the main thing is to  
3 have the same basis which another country is on, and  
4 on that we can be of very little assistance. It is a  
5 general levy, a compulsory levy, and I think from there  
6 on it is largely a matter of judgment.

7 COMMISSIONER PERRY: Now, Mr. Robertson, as  
8 you will readily appreciate, this Commission will always  
9 have before it the incidence of taxation, because it is  
10 central to any consideration of the structure of the  
11 tax system or the burden of taxes. You don't comment  
12 on this directly, but on page 6, towards the end of  
13 paragraph 16, you do just raise the curtain with a  
14 parenthetical statement:

15 "For example, if it is assumed that corporate  
16 taxes are passed on in prices ..."

17 At one time, of course, economists were quite sure of  
18 the incidence of the various taxes. Would your feeling  
19 now be that old theories of tax incidence must now  
20 be completely re-examined and are, in fact, being  
21 re-examined?

22 MR. ROBERTSON: Yes, I would feel that there is  
23 a great deal of room for re-examination of the incidence.  
24 The Foundation attempted to more or less lay a foundation  
25 for this type of work in<sup>a</sup> recent study of Professor  
26 Goffman, as you are aware, Mr. Perry. The federal  
27 sales tax, the incidence of that I think would require  
28 re-examination now. As far as we are aware, there has  
29 been none for a number of years. It was based on  
30



1 expenditure patterns which probably no longer hold  
2 true. The Goffman study had to be limited to  
3 expenditure patterns of some years back, and available  
4 statistics also required that all incomes beyond  
5 \$7,000 a year be lumped together.

6 Now, it was a start in this type of  
7 re-examination, but it would be most useful to have a  
8 clear idea just where the taxes end up.

9 COMMISSIONER PERRY: You haven't any suggestion  
10 as to how one could be certain of the incidence of  
11 corporate profits tax?

12 MR. ROBERTSON: No. That is another very  
13 large question. Whether that will ever be answered to  
14 anyone's satisfaction is rather doubtful. You may have  
15 to make certain assumptions with whatever evidence you  
16 can gather in order to reason out any program.

17 COMMISSIONER WALLS: I would like to move over  
18 to paragraph 18. Now, in paragraph 18, at the top of  
19 page 7, do I interpret your statement correctly that  
20 you are of the opinion that the narrowing of the tax  
21 base results in an increase of inequities and anomalies?  
22 And if my interpretation is correct, could a narrowing  
23 of a tax base and a reduction of the tax <sup>exemptions</sup> not lead  
24 to a decrease in these inequities?

25 MR. ROBERTSON: This is really a circular  
26 problem. The narrowing usually takes place with a  
27 view to eliminating inequities and anomalies, but I  
28 think experience shows that for each one you remove  
29 another one somehow becomes apparent. This, I think,  
30 is the experience of most administrations. It seems



1 to be a never-ending process, and those that are left  
2 after the narrowing are more grave because of the higher  
3 rate which applies to them. Widening of the base may  
4 not reduce the number of inequities and anomalies, but  
5 if in so widening the base it is possible to lower the  
6 rate, then the gravity of those that exist may be  
7 minimized.

8 That is the general position of it.

9 COMMISSIONER WALLS: But if you reduce the  
10 exemptions do you not to some extent get rid of  
11 anomalies? In narrowing a tax base would you not also  
12 tend to get rid of the inequities if you reduced the  
13 exemptions? Taking sales tax perhaps as an example.

14 MR. ROBERTSON: Well, it may work this way.  
15 I don't think there is any guarantee one way or the  
16 other. But in theory, (if you could reduce the gravity  
17 you could get the rates down. But I don't think you  
18 could say you could use a number of them.

19 THE CHAIRMAN: Could we read the second sentence  
20 to  
21 on page 7 so as/eliminate any reference to increased  
22 rates of tax, and so it would say: "The narrowing of the  
23 base leads to accentuation of inequities and anomalies."?  
24 I inquire whether that accentuation results from an  
25 increase in the rates, or would it occur without an  
26 increase in the rates?

26 MR. ROBERTSON: I think it could occur in  
27 either instance.

28 COMMISSIONER PERRY: Mr. Robertson, in  
29 paragraphs 19, 20, 21 and 22 various objectives of  
30 a tax system and factors which govern the form of the





1 tax system are listed. This seems to be an endless  
2 exercise. As you are aware, we have submitted to you a  
3 more detailed list of possible objectives in the tax  
4 system, which for the record I will now read.

- 5 (a) Price Stability
- 6 (b) Full Employment
- 7 (c) Economic Growth
- 8 (d) The Widest Possible Set of Choices for  
9 the Buyers and Sellers of Goods and  
10 Services
- 11 (e) A Socially Acceptable Distribution of  
12 Income
- 13 (f) Equality of Opportunity
- 14 (g) Equity
- 15 (h) The Rule of the Law and Responsible  
16 Government
- 17 (i) National "Independence"
- 18 (j) Administrative Efficiency and  
19 Enforceability
- 20 (k) Equalization of Living Standards on  
21 a Geographical Basis
- 22 (l) Maintenance of Adequate Exchange Reserves
- 23 (m) Maintenance of Private Ownership and  
24 Control of Natural Resources and Other  
25 Productive Facilities.

26 That list only goes to (m), but one could  
27 imagine<sup>it</sup> going right through the whole alphabet.  
28 What is your view as to the process by which the  
29 Commission could give some order of priorities to  
30 this list? Also in your view what others could be



1 added to the list? You can see that these are almost  
2 converse questions; one involves a narrowing and the  
3 other a broadening.

4 MR. ROBERTSON: Mr. Perry, while I assume it  
5 is intended to be covered in the list you have just  
6 read, one of the items which could go near the top but  
7 which isn't mentioned would be the raising of government  
8 revenues. I notice it is not on this list. I am  
9 afraid, like it or not, that this has to be right at the  
10 top of any list of objectives of a tax system. I can  
11 think of no wider spelling out of the objectives,  
12 and they could be rephrased in very many ways. We have  
13 had in mind much the same thing, by describing objectives  
14 of revenue, equity, simplicity, administrative  
15 feasibility, logic, economic goals and social theory.  
16 A number of the items mentioned there would fall into  
17 those categories.

18 The ranking of the objectives almost becomes  
19 a subjective test, although I think most would agree  
20 that revenue, equity, administrative feasibility or  
21 any words that imply this are quite primary, in  
22 addition to the economic goals which are mentioned  
23 in your list of price stability, full employment, etc.

24 I don't think one could be much more precise  
25 about ranking in this group. Emphasis in ranking  
26 could well change from time to time, depending on the  
27 situation. I am sure full employment would be well  
28 up at the top today and in most people's mind. While  
29 the goal might remain, in a few years we might hope it  
30 would take a lower position. I don't think there is



1 any permanent list when you get into this end of it.

2 COMMISSIONER PERRY: Do you think there would  
3 be any objectives which would be in conflict -- and it  
4 may not be so much a question of establishing priorities --  
5 in making a choice at any one time?

6 MR. ROBERTSON: Yes, there are going to be  
7 conflicts among them, and there has to be a choice.  
8 But I don't think at any one time can you completely  
9 ignore one or more of them.

10 COMMISSIONER PERRY: They never become minus  
11 quantities. At least I don't think so.

12 MR. ROBERTSON: The way it is worded here you  
13 have to have some workable balance. This is where it  
14 becomes an art, I suppose, in fiscal policy.

15 I would add just one thing. We have suggested  
16 here on this point of ranking that we feel there is no  
17 way other than <sup>in the Commission</sup> to rely <sup>on</sup> as much opinion <sup>and</sup> under its own  
18 common sense and judgment on this question. I don't  
19 think they will find any means outside of their own  
20 judgment.

21 THE CHAIRMAN: Turning to paragraph 22, in (a)  
22 you refer to the British North America Act in terms  
23 which indicate that it is immutable; you don't  
24 anticipate any alteration in the Act, as you say here.

25 MR. ROBERTSON: I looked upon it as it stands,  
26 Mr. Chairman. Obviously it can be changed like any  
27 other statutory matter.

28 THE CHAIRMAN: Drawing your attention down  
29 that line to (c), you make reference to "the state  
30 of legal, accounting and business knowledge and





1 practices." Would you think there would be any signifi-  
2 cant change in respect of these matters in, say, the  
3 last ten years, or more, if you like, which would  
4 indicate the need for a new approach in our tax system?

5 MR. ROBERTSON: Mr. Chairman, we first  
6 mentioned that our main point here was to suggest that  
7 any reform of the tax system is perhaps limited by these  
8 considerations, but beyond that the question seems to  
9 suggest that the tax law was appropriate to all legal  
10 business and accounting knowledge of the last ten,  
11 fifteen or twenty years or more. I don't, of course,  
12 speak with first-hand knowledge of this, but at that  
13 time the tax rates were not quite as significant in  
14 some cases./ It is the taxes that have changed perhaps as  
15 much in that time; and while the law does change, I  
16 don't think there are any particular things you can  
17 point out. It is a growing thing, and the accounting  
18 principles and practices are, too.

19 THE CHAIRMAN: Yes, I think I noted here that  
20 fifteen years ago the Canadian Institute of Chartered  
21 Accountants had issued virtually no accounting  
22 bulletins, whereas they are rapidly accumulating  
23 fairly substantial literature in accounting practices  
24 and principles.

25 MR. ROBERTSON: This is a growth in the  
26 professions rather than any startling departure from  
27 the principles.

28 MR. RUSSELL: Isn't it the case that these  
29 are governed by tax changes; the two go hand in hand?  
30 I am referring to depreciation, for instance, and things



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Mr. Robertson

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1 of that nature. Which comes first?

2 THE CHAIRMAN: There is some truth in what  
3 you said.

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1 THE CHAIRMAN: When in paragraph 22 I think  
2 it is, or a little later on, you suggest that the  
3 Commission should have regard to the tax structure in  
4 other countries, we of course are very conscious of  
5 this, and have established within our own organization  
6 a department dealing with foreign taxes. We would  
7 welcome any thought which you may have as to just how  
8 far we ought to investigate the tax systems of others.

9 MR. ROBERTSON: Mr. Chairman, this is another  
10 one of these questions that you can almost answer;  
11 as far as time and resources permit. I think that we  
12 might keep in mind that we have to look at Canada's  
13 tax structure primarily, and that the experience of other  
14 countries might be useful, but we have to keep their  
15 experience in the context of their systems, and not  
16 pull it out too far. Some of the main features that  
17 might be examined profitably in the other countries,  
18 I have mentioned one before, their capital allowances,  
19 their methods of valuing inventories for business  
20 taxation, an assessment of the proportions of direct and  
21 indirect taxes, to see if there is any norm, or whether  
22 they have just arrived like Topsy at some division.  
23 Their marginal rate spreads might be looked at. Their  
24 present exemption structures, and so forth, just to see  
25 how we do compare. There have been experiments in the  
26 other countries, and some in Europe, with different rates  
27 on distributed and non-distributed corporation profits.  
28 It may be that we have something to learn from this.  
29 I am not entirely sure at this time, and such well known  
30 items as the Swedish reserve system might be examined





1 from both its role in fiscal and tax policy and monetary  
2 policy as well, but there is no limit of course as to  
3 how deep you can go, and it is just to pick off what  
4 appear to be the most useful features to be examined  
5 closely.

6 THE CHAIRMAN: We are tremendously  
7 interested in the effects of the measures to which you  
8 refer. So far as I have been able to find out there  
9 is virtually no appraisal whatsoever as to whether effects  
10 of the incentives which we know have been incorporated  
11 into the tax systems of other countries have been  
12 successful in achieving the purpose for which they were  
13 instituted. Do you know if we can look anywhere to  
14 measure the effects?

15 IR. ROBERTSON: No I don't Mr. Chairman.  
16 This is something that we have been quite interested  
17 in at the Foundation, and as pointed out there does not  
18 seem to have been much of an assessment of how these  
19 incentive devices have worked out. If there is any  
20 trend that can be discerned, it is that many of the  
21 European countries are dropping the bits and pieces  
22 incentive approach, and are coming to a more straight-  
23 forward use of the tax system. This is mixed up with  
24 their records to harmonize the internal structures of  
25 the Common Market countries, so it is not clear where  
26 their efforts at harmonies and their efforts to  
27 introduce incentives are drawn, but it does seem to be  
28 proceeding in that way.

29 COMMISSIONER WALLS: I wonder if I could  
30 interject a question here? A little while ago, when you



D-3

1 were talking about tax neutrality, there was a point  
2 came to my mind, and I think it is dealt with at the  
3 top of page 12, where you state in effect that ~~the~~ <sup>on</sup>  
4 excise tax items . . . neutrality has been sacrificed  
5 for the sake of revenue. Now, I am not too clear  
6 as to how these excise tax items were selected. I  
7 have heard it stated that they were luxury items, and  
8 that that is why they carry a heavier tax than normal  
9 sales tax. If that is so, is it not possible that  
10 yesterday's luxury could be today's necessity, and that  
11 perhaps there should be some revision of the items  
12 that carry a heavier tax?

13 MR. ROBERTSON: I would have to agree of  
14 course that yesterday's luxury very often becomes  
15 today's necessity. I think the only answer, and it is  
16 perhaps not a very satisfactory one, about these items  
17 that were singled out, is that there was presumed to be  
18 such a demand for them that the change in price caused  
19 by these higher taxes will <sup>NOT</sup> result in too much of a drop  
20 in their purchase.

21 COMMISSIONER WALLS: Are you thinking in terms  
22 of liquor or shaving soap?

23 MR. ROBERTSON: Well, I don't know about the  
24 shaving soap. I think this is the theory where they  
25 feel they can pile these taxes on, and I suppose some  
26 people also feel that it is in the public good to  
27 diminish the purchase of these. This is perhaps one  
28 of their background nationalities.

29 COMMISSIONER BEAUVAIS: Not by doing that  
30 so far as liquor is concerned, because they produce



D-4  
1 statistics to show that the consumption of liquor is  
2 going up all the time, so is the price.

3 MR. ROBERTSON: Well, this maintains that  
4 the demand continues, and it is not a very successful  
5 approach. *indicating*  
*if the intention is to control or restrict*  
*on the liquor*

6 COMMISSIONER WALLS: I would like to make  
7 it quite clear than when I was talking about yesterday's  
8 luxury being today's necessity I was not referring to  
9 liquor.

10 THE CHAIRMAN: I think it might be a good  
11 idea at this particular point to break off for about  
12 ten minutes, and refresh ourselves and our thoughts,  
13 and take a look at a few more questions that we have  
14 got. So we will stand adjourned for ten minutes.

15 ---A short recess.

16  
17 THE CHAIRMAN: The ten-minute period is now  
18 15, so we will proceed.

19 Now, in order that this may be of interest  
20 to all, I asked Mr. Robertson if he had any additional  
21 copies of the submission. He informed me that he had,  
22 and that he had made them available, so that if there  
23 is anybody here who wishes to receive a copy now,  
24 Mr. Robertson has some more.

25 We have a few more questions.

26 COMMISSIONER GRANT: Mr. Robertson, on page  
27 10, 24, you pay tribute to the tax structure as it now  
28 exists, notwithstanding its imperfections, and then you  
29 go on to say that this is an opportunity in which there  
30 is the possibility of devising the best system. Now,





D-5

1 what has been bothering me to some extent is whether  
2 or not the present division of taxing powers under the  
3 British North America Act is likely to prove an  
4 impediment in devising that system which might be  
5 regarded as the best. I am wondering, without getting  
6 into the ramifications of provincial and federal  
7 jurisdiction, as to whether the Tax Foundation regard  
8 the division as it now exists as any great impediment  
9 to devising that system?

10 MR. ROBERTSON: I won't be able to offer any  
11 concrete opinion about that, particularly on behalf of  
12 the Foundation. It has no opinion on that as such.  
13 I think it is clear that any fiscal system is more  
14 difficult in a federal structure, I think just by  
15 definition this has to occur. The limitations of the  
16 B.N.A. Act are perhaps not as great as might appear  
17 at first glance. Due to the ingenuity of the tax  
18 policy people it has of course resulted in a number of  
19 difficulties in the death tax field, but for the sales  
20 tax a way was found around the problem of direct and  
21 indirect taxes.

22 Perhaps the one major limit for the provinces  
23 is to put some tax similar to the manufacturers' sales  
24 tax in operation. That would appear to be the one  
25 especially where they couldn't readily find a device  
26 around it. But the mere fact that they have had to find  
27 devices in this way has, I suppose, cluttered up the  
28 system a bit. I don't think it completely limits the  
29 possibilities of reform, but it certainly has to be  
30 considered, not only from the strict wording of the



D-6

1 B.N.A. Act, which is interpreted in different ways  
2 by different parts of the country -- well, there may be  
3 some limits. It might be difficult, for example, under  
4 the present B.N.A. Act to set up some system of the  
5 fringe value added tax. If you considered going all  
6 the way down to the retail level, this would take quite  
7 an amount of co-operation between the various levels  
8 of government, but I think that in the past we have  
9 managed quite successfully to work out quite a few of  
10 the problems of the federal system in the fiscal area.

11 I don't think I can add any more than that.

12 THE CHAIRMAN: We can note, I think  
13 Mr. Robertson, that the provinces have been most  
14 ingenious in causing taxes which one might consider at  
15 the first glance to be indirect to be applied in a  
16 direct manner, and that very ingenuity, I suppose,  
17 could be carried to the value added tax in the same way  
18 by the appointment of collectors within the companies,  
19 or within the persons licensed to collect the tax.  
20 I think I observed somewhere that it is possible for  
21 the provinces to achieve the application, or the  
22 assessment of sales taxes at almost any level by the  
23 use of devices.

24 MR. ROBERTSON: Yes, I think that ingenuity  
25 is quite remarkable.

26 COMMISSIONER GRANT: Well, that ingenuity,  
27 so-called, stands up until such time as it is challenged,  
28 and if it is challenged by another jurisdiction, then  
29 it might not be so ingenious.

30 MR. ROBERTSON: That is very true.



D-7

1 COMMISSIONER BEAUVAIS: Do you know,  
2 Mr. Robertson, if the French value-added tax is an  
3 indirect tax, or a direct tax?

4 MR. ROBERTSON: The words direct and indirect  
5 are used in so many ways. We have the special use  
6 attributed to those words in Canada arising out of  
7 the B.N.A. Act, but I think, generally speaking, it  
8 would be considered an indirect tax.

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1 COMMISSIONER BEAUVAIS: Like the federal  
2 sales tax is?

3 COMMISSIONER WALLS: Do they not use it --  
4 they are wholesale and retail level, any retail business  
5 in the province this is on the retail prices so it  
6 is in effect an indirect tax?

7 MR. ROBERTSON: I believe so. I do not  
8 consider myself an authority on the French added-value  
9 tax but even in this description it would be considered  
10 as indirect tax.

11 COMMISSIONER BEAUVAIS: Mr. Robertson, I would  
12 direct you to section 40 of your brief which is quite a  
13 lengthy section. I would ask you: Would you say the  
14 experience under the Income Tax Act since 1948 has indi-  
15 cated that the substitution of the rule of law by  
16 ministerial direction has been a satisfactory approach?

17 MR. ROBERTSON: Well, Mr. Beauvais, I cannot  
18 speak from experience of the pre-1948 situation. I can  
19 recount what I have been told on a number of occasions  
20 by practitioners and people who have had experience.  
21 I am sure you have had experience.

22 COMMISSIONER BEAUVAIS: Yes, I have.

23 MR. ROBERTSON: And I'm sure also the <sup>of the</sup>  
24 Commissioners. However, it has been drawn to my attention  
25 on a number of occasions by some of the people who <sup>in the</sup>  
26 favour the exact rule of law as opposed to discretion  
27 that they feel now perhaps the degree of discretion  
28 should be reintroduced in some way.

29 COMMISSIONER BEAUVAIS: To a certain extent?

30 MR. ROBERTSON: Yes, they feel a certain





E-2  
1 amount of it would be desirable particularly as it  
2 appears to be one of the only ways of avoiding most of  
3 the written rules which accumulate. This is only second  
4 hand, I am not an expert.

5 THE CHAIRMAN: Do you think that represents  
6 a fair consensus of practitioners?

7 MR. ROBERTSON: I really do not know whether  
8 it would or not. The people I have spoken to have  
9 been quite active in tax problems and have had experience  
10 over quite a number of years but whether it is a  
11 consensus or not I do not know.

12 THE CHAIRMAN: Of course, I am inquiring as  
13 to how one arrives at such a consensus or abstracts  
14 an opinion from a mass. I am wondering whether the  
15 Foundation might not be the best instrument to inquire  
16 as to what practitioners do.

17 MR. ROBERTSON: Well, we would be happy on  
18 any specific question like this to poll or elicit  
19 information from our members if that would be considered  
20 helpful.

21 THE CHAIRMAN: I think it would be.

22 MR. ROBERTSON: We would be happy to do that.

23 MR. RUSSELL: Speaking for the accounting  
24 part of this, I am sure this represents a fairly general  
25 opinion. I think the profession has felt that when  
26 discretion was exercised it was generally in favour of  
27 the taxpayer to remove some anomaly or inequity which  
28 can be done. It must always be borne in mind that  
29 as long as the calibre of the persons making use of the  
30 discretion is as high as it was in the past we are



1 quite safe in having a degree of discretion.

2 THE CHAIRMAN: Mr. Marler, do you think the  
3 legal opinion would be different than the accountants'?

4 MR. MARLER: I am not in a position to say  
5 that because my own field is the estate tax field and  
6 I do not think there has been any substitution there.  
7 I would, personally, much prefer the law to be set out  
8 so clearly as not to require the exercise of discretion  
9 or any more interpretations of it.

10 COMMISSIONER BEAUVAIS: Are there general areas  
11 at the present time where provisions of law and accounting  
12 are being by-passed and with dire results?

13 MR. ROBERTSON: The dire results I am not  
14 too sure who is affected by those dire results. I can  
15 say that I know of cases that may fall in that des-  
16 cription from my own experience, some which may not appear  
17 dire from the revenue standpoint or very small from  
18 their standpoint but might be felt to be that way from  
19 the original taxpayers' point of view. Some of the  
20 areas that I understand can result in difficulties there  
21 have been inadvertent distribution or shareholder loans  
22 where people thought they were getting returns  
23 on capital and had not been aware of the income tax laws.

24 COMMISSIONER BEAUVAIS: Are there areas where  
25 consideration should be given to by-passing these princi-  
26 ples in order to achieve better results?

27 MR. ROBERTSON: Well, two areas that are  
28 mentioned occasionally are the possibilities of equating  
29 the treatment of interest and dividends as a cost of  
30 financing corporate ventures. This might be looked at.



E-4

1 I do not know how far you could go but this would be  
2 an example of trying to equate something which in law  
3 is quite a different situation.

4 Another one that might bear examination is  
5 in the area of mergers and amalgamations and where  
6 de facto mergers in <sup>form</sup> agreement which cannot for one  
7 reason or another be carried out under the company laws,  
8 involved might be treated in the same way for tax  
9 purposes. I might say that other examples of the by-  
10 pass, I think every place where the word "deemed" is  
11 used, you might find there is some necessity for that  
12 either to by-pass some case or rule of law.

13 COMMISSIONER BEAUVAIS: My last question on  
14 this section is; are there areas of non-compliance  
15 which should merit the special concern of the Commissioners?

16 MR. ROBERTSON: I cannot speak of that with  
17 first-hand knowledge. My understanding of it is that  
18 compliance is at quite a high level in Canada and I  
19 think the revenue officials could perhaps advise the  
20 Commission on this. I do not have any facts of my own  
21 here.

22 THE CHAIRMAN: I would like to take you back  
23 to paragraph 35. Now, here you raised some interesting  
24 points and I would like to be sure I fully understand  
25 them. The first sentence:

26 " The confluence of the corporate with  
27 the capital-income concept and with graduated or  
28 'two-step' (as in corporate tax) rate schedules  
29 gives rise to the vast majority of our income tax  
30 problems."



E-5 1 Would you like to say a word to that  
2 sentence? I think it may be improved with a little  
3 elaboration.

4 MR. ROBERTSON: I might elaborate by indi-  
5 cating the type of problem I have in mind of where they  
6 do come together. I have mentioned one further on  
7 in the paragraph, namely, the one where all three are  
8 involved and this is the corporate distribution problem.  
9 This seems to be the chief one where each of these  
10 things comes together. Some of the others are in de-  
11 duction and expenditures and the difficulty is in  
12 determining whether or not they are capital or ordinary  
13 expenditures. It is just the coming together of what  
14 might be mystical concept, that is the only way to  
15 describe the capital income theory in a lot of  
16 situations and the same with the corporate theory. It  
17 is when these theories clash it is something like these  
18 wire puzzles where if you get each part in the right  
19 position something will come apart.

20 I am afraid I cannot enlighten you or enlarge  
21 on that very much more.

22 THE CHAIRMAN: Well, I am very hopeful before  
23 you are through this job that you will have more to say  
24 on this point because I think it strikes right at the  
25 basis of our taxes.

26 COMMISSIONER PERRY: Would you, Mr. Robertson,  
27 agree that there would be a problem outside of this area;  
28 this concentrates on the stream of investment flow, the income  
29 arising from business activity, beyond that or outside of  
30 it you have quite an acute personal income tax problem





E-6

1 resulting from income earned from employment. Here,  
2 of course, you do not have this complex of corporate-  
3 capital-income consideration. This is really a  
4 question of how far you would go, how broad a scope  
5 is included in the vast majority of our income tax  
6 problems. A majority, of course, can be only 51 per  
7 cent.

8 MR. ROBERTSON: Well, I would think most of  
9 the problems that are in this field, the technical  
10 problems we have in mind here. The other problems might  
11 be of equity and so forth but I have in mind the  
12 technical problems that might exist in the business  
13 area where you have the separate entities or assumed  
14 entities carrying on and generating income and it has to  
15 be passed by some manner or means to living people.

16 COMMISSIONER PERRY: I agree that there are  
17 complex problems in this area but I am just wondering  
18 how far you would say that the majority of them  
19 are here. There are still large areas outside of  
20 this complex of situations.

21 MR. ROBERTSON: Well, you can take the  
22 graduated rate structure and look at it separately from  
23 the corporate problem and you get into the split income  
24 provisions or the provisions designed to prevent splitting  
25 of incomes. Gifts to minors would be another example  
26 of that and necessity for provision for averaging funds  
27 returned or pension funds and farmers and fishermen  
28 averaging and so forth. I think they arise from trying  
29 to reduce the impact of the graduated rate structure.

30 Another one is the problem of associated



E-7

1 companies which is really just -- well, it is corporate  
2 again, it is a matter of the two-step graduation in the  
3 corporate tax. I think if you take the desire to split  
4 incomes and average fluctuating incomes and associated  
5 companies and corporate distributions you gather  
6 quite a large number of technical problems that are  
7 involved.

8 COMMISSIONER WALLS: There is a question I  
9 want to ask about whether or not it was excluded in your  
10 brief or your suggestions rather than being included,  
11 and this is in paragraph 43 on page 19 where you deal  
12 with the various corporate tax issues that the  
13 Commission should give consideration to. I note you  
14 make no reference to any study of the taxation of  
15 provincial corporations. Now, is this because there  
16 is any statutory reason of why they should not be  
17 taxed or is this not a matter of concern today in view  
18 of the increasing take-over by provinces of industries  
19 which must be due to the fact it is a tax-free operation?

20 MR. RUSSELL: You mean provincial governments  
21 taking over?

22 COMMISSIONER WALLS: That is right.

23 MR. ROBERTSON: I am not too sure if this is  
24 the type of tax problem we had in mind in bringing this  
25 up but it did not appear to us in that way. There is  
26 nothing really to prevent their being taxed, however,  
27 the situation is between the governing governments;  
28 the governing government could permit them to be taxed if  
29 they liked as some of the crown corporations federally  
30 are taxed. I do not think it is a problem in a technical



E-8

1                   that  
2   sense/could not be overcome if the parties wanted to  
3   agree to it.

4                   COMMISSIONER WALLS:   Would you suggest it is  
5   one that the Commission should give some attention to?

6                   MR. ROBERTSON:   I do not know just how much  
7   it is possible to go into it other than the form of  
8   equality of the situation between it and private  
9   enterprise.   As you pointed out there is a growing  
10   number of this type of firm and it is perhaps best to  
11   look at it from the revenue implications of what they  
12   might bring in and level out the burden.

13                  MR. RUSSELL:   Mr. Walls, would you not have  
14   to take into consideration in that aspect the  
15   federal-provincial tax agreement?   I think they would  
16   have a bearing on that subject.

17                  COMMISSIONER WALLS:   That is right, yes,  
18   I think you are quite right there.

19                  MR. RUSSELL:   By reason of the type of  
20   company that is being taken over.

21                  COMMISSIONER WALLS:   Yes, I think you are quite  
22   right there.

23                  COMMISSIONER GRANT:   I have a question and I  
24   would like to give Mr. Robertson a rest. In view of the  
25   fact that Mr. Marler is here I am at liberty to  
26   address the question to him.   As to paragraph 46 "Death  
27   Duties"; the Commission would be interested in having  
28   your opinion as to whether or not you consider that the  
29   Estate Tax Act as it is now in operation is satisfactory  
30   or if some of the questions that are framed here which  
   have a bearing on the operation of that Act, there



E-9

1 should be some changes? I suppose there are always  
2 changes but how important are the changes which the tax  
3 authorities might have in mind? I might also ask you  
4 to take into consideration the fact that it seems there  
5 is another provincial government that indicated its  
6 intention of re-entering the succession duty field and  
7 should that be a process that would be followed by  
8 other provincial jurisdictions then again what bearing  
9 would that have on the federal Estate Tax Act?

10 MR. MARLER: Mr. Chairman and Mr. Grant:  
11 That is quite a mouthful of questions you have levelled  
12 at me. I plead in answer to it that we came here  
13 to raise issues and not to settle any of them. However,  
14 within the realization of that, I have opinions of my  
15 own as to the Estate Tax Act. This Act was introduced  
16 after many years of consideration as to whether this  
17 was a better type of tax than the succession duty  
18 which, up to that time, represented the Canadian govern-  
19 ment's sole entry into the death duty field. Debate  
20 raged on this question countrywide. The most  
21 persuasive reason given, in my judgment, for the abolition  
22 of the Dominion Succession Duty Act and replacement by  
23 the Estate Tax Act was that the new Act would be very  
24 much simpler to enact than the old one. I think this  
25 proposition is one of very doubtful validity now. I  
26 think it is undeniable that a person who is planning to  
27 die in the near future can more readily determine the  
28 number of dollars his estate may have to pay in the  
29 way of estate taxes but this was not too difficult be-  
30 forehand.





E-10

1 I think the officials can give you a far  
2 better estimate than I but I would not be surprised  
3 if they told you they did not find the simplicity they  
4 were told they would when it comes to administering  
5 this Act. In drafting the Act the government has gone  
6 into very detailed rules as to how everything should be  
7 done. I suppose this makes life easier for the  
8 department but it makes life much less interesting for  
9 the estate planners than it used to be because there  
10 are so many rules now that all the positions are taken  
11 care of.

12 As far as this entry, which I think we said  
13 had already occurred in British Columbia, I think they  
14 re-entered on the 1st of April. There are, as members  
15 of the Commission are aware, provisions in the Estate  
16 Tax Act which are designed to reduce the amount of the  
17 estate tax where property has already been the subject  
18 of succession duties.

19 Going back a little way, the rates on  
20 dominion succession duties were doubled in 1947 when the  
21 first provincial agreement came before us. At that time  
22 the first provision for credit against the dominion  
23 succession duty which corresponded to the provincial  
24 succession duty which was introduced, these provisions  
25 are still in the Act now.

26 What the government would no doubt like is to  
27 see the credit against estate tax will apply only where  
28 provincial succession duty has actually been paid. This,  
29 I believe, is unacceptable to provincial governments  
30 who rented out these fields because it does not work out



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Mr. Robertson

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E-11

1 to their satisfaction in all ways. There is a very  
2 cluttered body of rules in estate tax which determine  
3 if they will be credited or not.

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1 There has been a lot of publicity given in the press  
2 in cases in which arrangements could be made to gain  
3 the credit. This is one of the reasons why British  
4 Columbia has decided to re-enter the field.

5 That is rather a long statement in answer to  
6 your rather long question, but I am not sure whether it  
7 has answered it or not.

8 COMMISSIONER BEAUVAIS: Mr. Marler, at the  
9 present time I don't think it is equivalent to 50 per  
10 cent in Quebec. You don't receive a credit of 50 per  
11 cent from Ottawa. It is first on account of exemption.  
12 If you go over \$10,000 in Quebec you don't have any  
13 credit at all.

14 MR. MARLER: That is correct.

15 COMMISSIONER BEAUVAIS: On the other end,  
16 Mr. Marler, it seems to me that there are some sections  
17 in the Estate Act which should be investigated, like  
18 section 3 (k), for instance, on pensions. You may  
19 have a case when a pension would be paid to a widow  
20 and the estate receives nothing <sup>except the</sup> pension. The  
21 pension will be taxed according to the widow's age and  
22 the estate wouldn't have the cash to pay it at all.  
23 And not only that, the pension would be subject to  
24 income tax for the full amount. Don't you think that  
25 the Foundation could investigate such cases?

26 MR. MARLER: Well, the Foundation could  
27 certainly advise the Commission in so far as the  
28 Commission would need any advice on the interpretation  
29 of that section. Everybody is bound to agree that the  
30 effect of the estate tax plus income tax is a very



1 heavy burden indeed.

2 COMMISSIONER BEAUVAIS: In those special cases  
3 of hardship it is very important.

4 MR. MARLER: Yes. Of course, there is another  
5 section, the very next section of the Act, which I  
6 always thought was theoretically very peculiar, 3 (I)(1),  
7 which brings into tax any amount of money a person who  
8 has employed any deceased person would hand out to the  
9 deceased person's widow in token of his services. The  
10 person who gets the benefit should likewise be taxed.  
11 But, theoretically, a person should on his deathbed  
12 know how much tax he is going to pay. In this case he  
13 doesn't possibly know.

14 THE CHAIRMAN: That estate tax has been in  
15 effect a long time.

16 Now, has a criticism been prepared of this Act  
17 as it now stands?

18 MR. MARLER: I don't know of any critique.  
19 Perhaps the Bar Association in its own submission will  
20 criticize it in detail. I know there are volunteers  
21 who are willing to answer questions to the Commission  
22 about the Act, but I know of no general critique.

23 THE CHAIRMAN: Yes, it might be very helpful  
24 to the Commission.

25 MR. ROBERTSON: Mr. Chairman, I would add to  
26 that that there have been annual conventions of the  
27 Foundation which have dealt with that and they are  
28 annually published.

29 MR. MARLER: There is nothing which says that  
30 the Act is a very excellent Act. We know the Act is





1 very bad.

2 THE CHAIRMAN: Thank you.

3 COMMISSIONER PERRY: Mr. Robertson, I think  
4 the Commission as a whole observes that there seems to  
5 be more emphasis in your brief on direct taxes, the  
6 corporate and personal income taxes, than on the  
7 commodity taxes. There appears specifically a reference  
8 only in paragraph 50 under the heading "Hidden Taxes"  
9 and not in the very broad context there. I assume we  
10 shouldn't interpret from that that all is well with  
11 commodity taxes. There are some indirect suggestions  
12 in certain paragraphs of specific things that we might  
13 look at. In paragraph 41, for example, in parenthesis  
14 you throw in the thought of subjecting services to the  
15 sales tax, and in other places there are more general  
16 statements as to the proper balance of taxation.

17 Perhaps a question I would like to put to you  
18 is simply to have you say that we are not to interpret  
19 your brief as implying that the major concern is direct  
20 taxes, that there are quite substantial problems as  
21 well under the sales tax particularly?

22 MR. ROBERTSON: Well, that was the way we had  
23 hoped the brief would be interpreted; and paragraph 50  
24 about hidden taxes was a general comment that was not  
25 supposed to be the only word on indirect taxes. We  
26 hoped that concern would show up in other sections.

27 COMMISSIONER PERRY: Is there any further  
28 comment you wish to make?

29 MR. MARLER: If I may confer with Mr. Robertson.

30 MR. ROBERTSON: I would add, Mr. Perry, that



1 we had in mind the sales tax as well as direct taxes  
2 when we spoke about exemptions and so forth at an  
3 earlier point about narrowing and broadening the tax  
4 base, and we had those in mind certainly as much as  
5 direct taxes. Definitely the use of these exemptions  
6 in the place of the sales commodity taxes as a revenue  
7 source we certainly feel is a very important part of  
8 the consideration of the Commission.

9 COMMISSIONER PERRY: Well, I might turn to  
10 the memorandum of additional questions which has been  
11 provided to all witnesses appearing this week. I  
12 wonder if you would consider making observations on  
13 two or three of these.

14 First of all this: What aspects of provincial  
15 and municipal taxation should be considered by the  
16 Commission?

17 MR. ROBERTSON: Well, I would say this to  
18 begin with, that we, of course, appreciate the  
19 limitations of the Commission's terms of reference to  
20 go into the provincial and municipal field; and we also  
21 appreciate that it is perhaps difficult to assess just  
22 one level of taxation. But the one major area I think  
23 that might be useful to go into is the possibilities of  
24 what might be termed harmonizing or integrating the  
25 federal taxes with the provincial taxes. We have in  
26 the brief suggested, just by way of example, what some  
27 of these might be: the possibility of a single sales  
28 tax at the retail level, which would be actually a  
29 provincial statute but which would carry out some of  
30 the purposes of collecting revenues for the federal



1 government. I think this type of approach might be an  
2 interesting one when you are considering new shapes for  
3 the tax structure.

4 All of these presuppose the desire, which I am  
5 sure exists, of the provinces to work out suitable  
6 arrangements where they are proved to be in everyone's  
7 best interest.

8 There may be suggestions made from time to time  
9 to the Commission of the possibility of having certain  
10 provincial and municipal taxes deducted in the course  
11 of collecting the federal income taxes, for example.  
12 I think this is often mentioned as a possibility, as a  
13 way of relieving the municipalities or allowing them to  
14 raise their own taxes. If that is the case, the  
15 Commission would have to consider <sup>the possibility of the</sup> the federal levies.

16 THE CHAIRMAN: When you are talking about sales  
17 tax as between the federal and provincial governments,  
18 you speak of sales tax at the retail level, and, of  
19 course, the provinces are already at that level. I would  
20 ask you whether that expresses a choice. Are you indi-  
21 cating to us that the retail level is in your opinion  
22 the best level?

23 MR. ROBERTSON: Well, my own opinion is yes.  
24 I am sure there are others who might disagree with this,  
25 but I think it has a lot to commend it. There are  
26 difficulties at all levels of imposition, but this one  
27 would appear to give a very broad base and perhaps a  
28 lower statutory rate.

29 COMMISSIONER PERRY: Another matter which has  
30 concerned the Commission is how far we should consider



1 the procedures by which Parliament deals with tax  
2 matters. There have been views expressed recently on  
3 this subject. Would the Foundation care to suggest  
4 how far this Commission as such should examine that  
5 matter?

6 MR. MARLER: If the Commission considers it  
7 at all, it must also consider that these considerations  
8 will be so made that they will never require any amend-  
9 ment. My own personal feeling is that changes in tax  
10 legislation should be less precipitative than they  
11 have been in the past, ~~that~~ more room should be allowed  
12 for the careful study by experts, if they can be found,  
13 of the proposed tax changes and of the results on the  
14 economy and Canada on the tax changes. Only when the  
15 results of those examinations are known should the  
16 changes be proceeded with.

17 MR. ROBERTSON: I would add to that, Mr.  
18 Chairman, that we have had several examples of that type  
19 of viewing. We have had estate tax which was considered  
20 for some time, and changes for corporation tax. The  
21 1948 income tax was handled in this way, and more  
22 recently a bill for deferred profit -sharing, and it  
23 seemed to work quite well.

24 Obviously, <sup>would not</sup> they just don't want <sup>a genuine discussion of</sup> simply a  
25 change in the rates. Perhaps they don't want them  
26 debated at least before they are put in; and I assume  
27 we would also want to have any system of examination  
28 fit in with our concept of responsible government in  
29 which the government carries the ball, as it were, on  
30 tax changes.





1 The American system, of course, is somewhat  
2 different, and we are perhaps looking for something that  
3 loosens up our system perhaps a little bit and does not  
4 leave things quite as far open as they are in the  
5 United States. There seems to be a considerable time  
6 pass before they can enact legislation once it is  
7 proposed.

8 I am sure the views of the Commission on this  
9 question would be well received. It has received quite  
10 a bit of consideration of the Joint Committee of the  
11 Canadian Bar Association and the Institute of Chartered  
12 Accountants as well.

13 THE CHAIRMAN: If the Government proceeded to  
14 be more liberal in putting forward a bill, what kind of  
15 a commission or committee would you visualize as  
16 receiving petitions from people? It would seem that  
17 without some such committee or commission it would  
18 place on the Minister a quite unusual burden. Should  
19 there not be some mechanism in there for relieving the  
20 Minister?

21 --

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G/AG/je

1 MR. ROBERTSON: I would think there would  
2 have to be a mechanism, perhaps a Parliamentary Committee  
3 of sorts. The Senate Committee on Banking and  
4 Commerce does an excellent job in the review of some of  
5 the tax legislation. Of course, under our system their  
6 power to suggest amendments is very limited, which  
7 perhaps only confuses this. So it may have to be done  
8 through the Commons. We have made no particular study  
9 of this. These are just areas that might be looked at.

10 MR. MARLER: The Commission may have noticed  
11 in the press comments that the Committee should consider  
12 itself such a body of critics.

13 COMMISSIONER PERRY: The counterpart of this  
14 loosening up on the legislative side would seem to be  
15 a system of advance rulings, or some greater flexibility  
16 within the administrative process. Have the Foundation  
17 examinations of the system of advance rulings satisfied  
18 you that this is a subject that we should pursue by a  
19 complete study?

20 MR. ROBERTSON: Yes, I would think that it  
21 does warrant a close examination. The American  
22 administration has had quite a period of experience in  
23 this, and I understand that you can get more or less  
24 formal rulings in some of the European countries.  
25 The main area of concern, I think, in Canada for advance  
26 rulings is where you have very complicated corporate  
27 problems or ventures that are about to go further, and  
28 it would be considered most helpful to have some type of  
29 ruling on these. This also merges into the question  
30 of discretion being exercised, either by the Adminis-



1 tration, or at some other place, because the advance  
2 ruling in itself involves inevitably I believe some  
3 type of discretion, or the development of some business  
4 purpose text that may go beyond the actual wording of  
5 the law in the statute.

6 THE CHAIRMAN: Yes. There would be no  
7 purpose to it were that not the case.

8 MR. ROBERTSON: I would think so.

9 COMMISSIONER PERRY: I have no further  
10 questions.

11 THE CHAIRMAN: Are there any further  
12 questions?

13 Well, we are very grateful to the Canadian  
14 Tax Foundation indeed. As I said earlier, this is  
15 our first appearance, and to us up here it has been most  
16 and enjoyable/informative, and I think the Commissioners  
17 feel as I do. I would hope, and look forward to hearing  
18 again from the Canadian Tax Foundation, probably as  
19 part and parcel of the national hearings, which are to be  
20 conducted in the autumn. I think it would be most fit-  
21 ting that some thing that started with the Tax Foundation  
22 should be ended with the Tax Foundation. It is a  
23 strategic position, and they would then have heard all  
24 that was said to us, and we would indeed be interested  
25 to hear their comments on all that has been said to us.

26 THE SECRETARY: At 2:15 this afternoon the  
27 Canadian Chamber of Commerce will appear.

28 THE CHAIRMAN: We stand adjourned.

29  
30 ---Luncheon adjournment.



Tuesday, April 16, 1963.

---On resuming at 2:15 o'clock.

THE CHAIRMAN: Gentlemen, the hearing will now come to order, it being past the hour of 2:15. Mr. Secretary, I understand this afternoon we are meeting a delegation from the Canadian Chamber of Commerce; would you be kind enough to introduce them?

THE SECRETARY: Mr. Chairman, this afternoon we have with us officers of the Canadian Chamber of Commerce. Mr. George Keeping is Chairman of the Executive Committee of the Chamber of Commerce and he is going to speak to the brief and introduce the officers who are here. I will now enter this brief as Exhibit 3 into the record.

EXHIBIT NO. 3: Brief of the Canadian Chamber of Commerce.

SUBMISSION OF THE  
CANADIAN CHAMBER OF COMMERCE

APPEARANCES:

Mr. George Keeping,	- Chairman, Executive Council.
C.W. Leach,	- Chairman, Ad Hoc Committee, Royal Commission on Taxation.
Morgan Reid,	- Member, Ad Hoc Committee.
W.J. Hulbig,	- " " "
Eric Hamilton,	- " " "
Stewart Thom,	- " " "
W.J. McNally,	- Manager, Policy Department





1 THE CHAIRMAN: Thank you, Mr. Bennett.

2 Gentlemen, we are quite overwhelmed at the strength and  
3 the size of your delegation. I have just worked out  
4 that if we give you each 15 minutes we will have a pretty  
5 full afternoon and, indeed, I hope we do hear from you  
6 all. Mr. Keeping, will you commence?

7 MR. KEEPING: Mr. Chairman, I can reassure  
8 you and set your minds at rest that I will take one  
9 minute and perhaps one and a half minutes. The Executive  
10 Council of the Canadian Chamber welcomes this opportunity  
11 to appear before you at this preliminary hearing.  
12 The appointment of the Commission fulfilled a request  
13 which the Canadian Chamber had made of government over  
14 a number of years to thoroughly review the tax structure  
15 of the country. We were, therefore, very grateful  
16 when your Commission was appointed.

17 The Canadian Chamber of Commerce is a  
18 voluntary organization and federation of more than 850  
19 boards of trade and chambers of commerce throughout  
20 Canada. The terms "board of trade" and "chamber of  
21 commerce" are quite synonymous. In addition to these  
22 organization members the Chamber has 2,700 corporation  
23 members consisting of companies of all sizes and in  
24 all geographical locations. Seventy-five per cent of  
25 the boards are in communities of less than 5,000  
26 population.

27 The preliminary statement that we have sub-  
28 mitted is submitted by the Executive Council which is  
29 appointed by the National Board of Directors, the  
30 governing body of the Chamber to carry on the ordinary



1 business in the interim between meetings of the Board  
2 of Directors.

3 With your permission I would like to  
4 introduce Mr. Campbell Leach who is the second next to  
5 one on my left. He is the chairman of a special  
6 committee which the Executive Council has set up to  
7 prepare a submission to the Commission.

8 THE CHAIRMAN: Before Mr. Leach speaks would  
9 you reply to one question on your own remarks?

10 MR. KEEPING: Certainly.

11 THE CHAIRMAN: You have indicated that the  
12 Chamber of Commerce pressed for a Commission such as  
13 this to thoroughly review the tax structure of the  
14 country. Now, I have been thinking once or twice as  
15 to why Canada wished a Royal Commission on that. At  
16 the present time there is reason for a review in the  
17 United States, the slow rate of economic growth. I  
18 am wondering if this is primarily the reason for a  
19 Canadian <sup>Commission</sup> or if it is the fact that persons in Canada  
20 have become concerned with the complexity of our law  
21 and the difficulties of Canadian income tax.

22 MR. KEEPING: I think both those factors  
23 entered into the recommendation and the declaration that  
24 the Chamber had in its policy for a number of years.  
25 I think the principal one was the concern of the members  
26 of the Chamber at the rate of economic growth and,  
27 secondly, the complexity of the Act. Since the Act  
28 was enacted in 1949 it had been developed in a somewhat  
29 hodge-podge fashion and was becoming unwieldy. I think  
30 the major factor was the unsatisfactory rate of economic



1 growth.

2 MR. LEACH: Would it be in order if I stand  
3 for my opening remarks?

4 THE CHAIRMAN: You have your choice.

5 MR. LEACH: If I may. I would like, first  
6 of all, to associate myself with the words of appreciation  
7 which were spoken by Mr. Keeping. We are very pleased  
8 indeed to be here this afternoon and, in fact, we  
9 are complimented on being invited to join these pre-  
10 liminary hearings. We are overcome with your  
11 willingness to take on this formidable task and at the  
12 energy with which you are approaching it. If you  
13 achieve success, and we fervently hope you will,  
14 Canada will owe you a great debt of gratitude.

15 This Committee and the present delegation  
16 cannot speak for the Canadian Chamber of Commerce.  
17 The submission which we will prepare will have to be  
18 approved and perhaps amended by the Executive Council  
19 of the Chamber before it can be regarded as a statement  
20 of the Chamber. Worse than that, perhaps we who  
21 appear before you this afternoon cannot even speak for  
22 the Committee because no conclusions have been reached  
23 by the Committee itself. We represent perhaps less  
24 than half of the total number of our Committee. We  
25 would crave your indulgence if we this afternoon appear  
26 to avoid conclusions and ask you to recognize that any  
27 opinions that are expressed are individual opinions and  
28 not the opinions of the Canadian Chamber of Commerce.

29 I would also implore any of those who have  
30 the responsibility of reporting this meeting, either for



1 the Commission or for the Press, should avoid attributing  
2 anything that is said this afternoon to the Canadian  
3 Chamber of Commerce.

4 I would now like to introduce the delegation  
5 that is with us this afternoon. On my extreme left  
6 is Mr. Stewart Thom, a solicitor from Toronto and  
7 former Chairman of the Canadian Tax Foundation. On  
8 my immediate left is Mr. W.J. Hulbig, also a solicitor  
9 prominently associated with the work of the Canadian  
10 Bar Association Tax Committee. On my extreme right  
11 is Mr. Eric Hamilton, C.A., an officer of a prominent  
12 chemical industrial company. On his left is Mr. Morgan  
13 Reid who is with a large retail merchandising establish-  
14 ment.

15 Then on my immediate right is Mr. W.J.  
16 McNally, Manager of the Policy Section of the Canadian  
17 Chamber of Commerce.

18 I would like to say that we have the  
19 services of Dr. J.R. Petrie, a consulting economist who  
20 will aid and lead us in the preparation of our final  
21 brief. I would like to say that Dr. Petrie is lurking  
22 in the wings with the idea of making a dramatic entrance  
23 at this moment but I am very sorry to say he has been taken  
24 ill and will not be with us this afternoon, much as we  
25 hope that would be the case. Thus, we are on our own  
26 devices and will lack his assistance.

27 The statement which we have filed with you  
28 is deliberately brief and it avoids conclusions. You  
29 will note even that it is headed as of this date. I  
30 would like to read for the record the nine points that





1 are made, starting on page 2 where we say that the  
2 following areas are expected to be included in our final  
3 statement.

4 " 1. Brief resume of fiscal policy as it has  
5 been implemented in Canada in recent years.  
6 This will be a broad statement of our  
7 interpretation of fiscal policy and a critical  
8 appraisal.

9 2. Weight of the tax burden and its  
10 distribution. This will show the proportions  
11 of total revenue derived from the major  
12 federal, provincial and municipal taxes.

13 3. A statement of basic fiscal principles.  
14 This will contain the Chamber's tax policy  
15 and a discussion of tax neutrality vs.  
16 discrimination.

17 4. Effects of taxation on business. This will  
18 deal with the impact of the corporation tax  
19 on the creation of new enterprises, the effect  
20 on expansion of small companies, on the  
21 availability of capital, on related earnings.  
22 It will also deal with the effects of municipal  
23 taxes on industrial location and regional  
24 rates of economic growth.

25 5. Tax incentives. We shall deal with the in-  
26 centives as they exist in Canada at the  
27 federal, provincial and municipal levels. Among  
28 the subjects to be discussed will be the tax  
29 position of co-operatives, special depreciation,  
30 other special write-offs, and the incentive



- 1       "       contained in the 1962 Budget regarding  
2       taxes on income from increased sales. At the  
3       municipal level there will be a critical  
4       analysis of tax concessions to business and  
5       discriminatory treatment of different types  
6       of business. A brief survey of tax in-  
7       centives in foreign countries will be included.
- 8       6. Impact of the personal income tax. This will  
9       show distribution of the tax burden by income  
10      groups. It will cover the effect on personal  
11      saving and investment, as well as the problem  
12      of taxing dividends as well as corporate  
13      income.
- 14      7. The broader tax base vs. incentives. Here,  
15      the effects of broadening the tax base and  
16      maintaining tax neutrality insofar as possible  
17      will be compared with the effects of the tax  
18      incentive approach. Among the points to be  
19      discussed are lower income tax rates and a  
20      broader Federal sales tax base. An attempt  
21      will be made to reach conclusions and to  
22      rationalize proposals on economic grounds.
- 23      8. Excise Tax Act. Reference will be made to  
24      the Excise Tax Act submitting proposals with  
25      respect to the definition of sales price,  
26      exemptions, and appeal procedure.
- 27      9. Estate Tax Act. Reference will be made to  
28      the Estate Tax Act submitting proposals for  
29      relief from the combined effect of estate tax  
30      and income tax on certain death benefits and



" proposals dealing with installment payment of taxes, optional valuation dates, and 'fair market value'. "

What we can say at this time, Mr. Chairman, is that our object is to produce a final submission which is in conformity with the stated policy of the Canadian Chamber of Commerce in fiscal, monetary and taxation matters.

We will file with the Secretary of the Commission our policy declaration and I would direct the members of the Commission to page 36 where is found the commencement of the Chamber's policy statement and declaration on the question of public finance and taxation.

THE CHAIRMAN: What is the date of that?

MR. LEACH: It is the current policy statement.

THE SECRETARY: Exhibit 4.

EXHIBIT NO. 4: Copy of policy declaration of Canadian Chamber of Commerce.

MR. LEACH: Now, we are in your hands and at your disposal. We will endeavour to answer any questions, elaborating on or clarifying the terms of our statement subject to the reservations mentioned earlier. You will appreciate that I do not propose, with the galaxy of talent associated with me, I do not propose to answer all these questions myself. I will devote myself to deflecting the barbs and darts which you may direct at us.

At the same time, there are some suggestions and instructions which the members of the Commission



1 might like to offer to us looking towards the  
2 preparation of our final brief and, if so, we would be  
3 more than pleased to receive any such suggestions.

4 I might say that we have examined carefully  
5 the memorandum entitled "Memorandum on Preliminary  
6 Hearings to be held in Ottawa April 16 to April 20".  
7 We have examined these questions and prepared some  
8 notes so they would be in accordance with your wishes.  
9 It would be a convenience to us if your questions  
10 followed in that pattern and sections of that memorandum.  
11 Thank you.

12 THE CHAIRMAN: Thank you, Mr. Leach. Your  
13 submission to us, though short, covers a huge area and  
14 I know that we have a few questions based on this.  
15 The Commission will look to the Chamber for considerable  
16 assistance because your organization probably has the  
17 widest experience of Canadian business. When we are  
18 concerned about the effects of taxation I would be  
19 surprised if anybody in the country could speak with the  
20 authority of the Chamber.

21 MR. LEACH: That is the role we would like to  
22 assume.

23 THE CHAIRMAN: I think it falls naturally  
24 upon you.

25 COMMISSIONER WALLS: Following along this  
26 line and because of the experience the Chamber has they  
27 are probably the people best able to give us some  
28 guidance on this matter; have you carried out any study  
29 or do you intend to carry out any study for your brief  
30 on the percentage of sales tax that is included eventually





1 in the retail sales value passed on to the consumer.  
2 If you have not done that could you advise the  
3 Commission as to how they could best go about assessing  
4 the amount of sales tax that is eventually passed on  
5 to the consumer?

6 MR. LEACH: You will appreciate for one  
7 reason or another we have not yet carried on anything  
8 like the full research we would like to do. I  
9 certainly personally cannot answer that question one  
10 way or the other. I was wondering if Mr. Reid would  
11 have any observations on that?

12 MR. REID: I would suggest that if we can  
13 be of assistance on this particular point that it would  
14 be possible to at least provide something in the area  
15 of research that might be of some assistance to the  
16 Commission through our member corporations. I would  
17 think Mr. Keeping as Chairman of the Executive Council,  
18 if he felt that this was a useful function to be per-  
19 formed for the Commission we should at least make  
20 some contribution in this area.

21 THE CHAIRMAN: Thank you. We will certainly  
22 consider that and probably take advantage of your kind  
23 offer.

24 COMMISSIONER PERRY: I wonder if, growing out  
25 of that question and enlarging on it a bit, if the  
26 Chamber could name any specific projects that they are doing  
27 for their brief, if it is not too early to mention it.

28 MR. LEACH: I think you have us at a dis-  
29 advantage because for a question like that we would have  
30 relied very much on Dr. Petrie. I do not know if anyone



1 associated with me would think differently but I do  
2 not think we can say anything about the degree of  
3 research under consideration.

4 THE CHAIRMAN: We are indeed sorry to hear  
5 of Dr. Petrie's illness, I hope it is not serious and  
6 that he will be able to carry on the job for you.

7 MR. LEACH: We have under way a project  
8 distributing a questionnaire to some 400 of our members.  
9 This is one positive research program that we have.  
10 However, if the question refers to the level of sales  
11 tax, as I understood the original question did, I do  
12 not think we have anything on that particular subject.  
13 This is, as I say, one means of research that we have  
14 available to us.

15 COMMISSIONER PERRY: I think we might say that  
16 as a general rule we are eager for some factual  
17 information on any area in which it could be produced.  
18 I am afraid we are all too prone, including Royal  
19 Commissioners, to come forth with generalities which  
20 quite often are not supportable or in which no attempt  
21 has been made to provide support.

22 MR. KEEPING: I sincerely hope if you have  
23 any specific areas in mind you will mention them because  
24 we will be very anxious to give what consideration we  
25 can to any specific point.

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1 THE CHAIRMAN: Well, perhaps the most  
2 obvious question that comes to mind is the choice  
3 between relieving the weight of taxation in the area  
4 which encourages corporate investment as opposed to  
5 relieving it in that area which would increase consumption.  
6 Now, measuring the relative needs, as I say, is not  
7 very clear. I think that in the United States they  
8 recognized that relief was needed in corporate taxes.  
9 I think that was to some extent based upon the fact that  
10 capital formation had slowed down. Now, I wonder if  
11 capital formation in this country has slowed down.  
12 But again the Chamber would probably have a view on the  
13 matter.

14 MR. LEACH: I think we have personal views on  
15 the subject, Mr. Chairman, but I think we would like to  
16 have them confirmed.

17 Our questionnaire asks the following questions:

18 (1) Has there been one or more situations  
19 in your business where weight of federal  
20 corporation tax on a contemplated new project  
21 was such that the project was abandoned?

22 (2) In the foregoing project or projects  
23 or activity how many percentage points would  
24 the corporation tax have had to be dropped to  
25 make the project or projects or activity  
26 feasible?

27 (3) Is the federal corporation levy borne  
28 by (1) consumers, (2) shareholders, (3) borne  
29 partly by consumers and shareholders, and (4)  
30 not certain?



1 I think these are pertinent questions.

2 THE CHAIRMAN: Are the answers starting to  
3 come in?

4 MR. LEACH: Yes, they are starting to come in.

5 THE CHAIRMAN: Yes, they are most pertinent  
6 questions, I would think.

7 Wouldn't one be inclined to shade answers in  
8 accordance with the desirability for tax rebate? I  
9 don't say in a dishonest way at all, but  
10 we all have our motives when we come to answer questions,  
11 we have our own interests in view. I thought perhaps  
12 at one time that consideration should be given to the  
13 desirability of sending out persons to raise these  
14 questions in discussion. It is much more economic and  
15 much better to do it by questionnaire, as you have done.

16 MR. LEACH: From the answers that have been  
17 received, I would say that the answers are sincere  
18 because they are not sufficiently pointed in one  
19 direction, I feel, where they are influenced by emotion.

20 COMMISSIONER GRANT: Might we, Mr. Chairman,  
21 refer to the Estate Tax Act? I think that we should  
22 use this opportunity to ask Mr. Thom if he would agree  
23 to tell us his views on the general application of the  
24 Estate Tax Act, as to whether or not he thinks it is  
25 doing an adequate job at the present time. Also there  
26 is the likelihood that if the provinces re-entered  
27 the estate tax field it is going to undermine to some  
28 extent the application of the present Estate Tax Act.

29 MR. THOM: I was looking forward to the  
30 answer of the Commission in that question, Mr. Chairman.





1 But speaking from my own personal opinions, it has been  
2 somewhat my understanding of the Dominion Estate Tax  
3 Act that it was an auxiliary Act and not necessarily a  
4 money-raising or social function.

5 As to the provinces re-entering, one enters  
6 into political aspects of the problem which are beyond  
7 me to deal with adequately. Now there are three  
8 provinces which are in it, and the only ones which are  
9 not in it are those which don't think they can do as  
10 well by staying out.

11 The application of the Act is something on  
12 which the Chamber has something to say as to the  
13 practicability of it. I am sure the public and the  
14 Chamber will look forward with the greatest interest  
15 to the recommendations of the Commission on the  
16 anomalies, such as annuities and things of that nature.  
17 These are practical problems of administration of tax  
18 policy.

19 On your larger question, Mr. Chairman, I  
20 don't think I can add anything to what I have said.

21 THE CHAIRMAN: In your policy statement there  
22 is a reference made to double taxation, double taxation --  
23 corporate income I see here. "The Chamber recognizes  
24 the steps that have been taken to reduce double tax in  
25 the field of income tax ..." Well, presumably if one  
26 found as a result of inquiry that most corporate taxes  
27 were passed on to consumers and not borne by share-  
28 holders, such a finding would be in conflict, I think,  
29 with this item of policy statement. Would that be  
30 correct?



1 MR. LEACH: If I understand you, Mr. Chairman,  
2 I don't think we have arrived at a conclusion on this yet.

3 THE CHAIRMAN: My question was that you have  
4 raised the question in your questionnaire as to whether  
5 or not corporation taxes borne by the shareholders were  
6 If  
7 passed on to others in goods or wages./ the answer to  
8 that came in, that most corporation tax is not borne by  
9 the shareholders, it would imply that there is not double  
10 taxation of that income, and I suppose your policy  
11 statement would require revision in the light of that.

12 MR. LEACH: Well, Mr. Chairman, the results of  
13 the survey have yet to be determined, and how this will  
14 follow through into the policy statement is very hard  
15 indeed to predict. As the Commission knows, it is a  
16 very hard subject to nail down. I know there is a  
17 possible implied contradiction, but I don't think it  
18 exists yet.

19 THE CHAIRMAN: The only reason I raise it is  
20 to indicate that despite your reference to double  
21 taxation, I think we all recognize now that we are not  
22 sure whether there is double taxation. It is an area  
23 into which we have to look.

24 COMMISSIONER PERRY: Mr. Leach, there are a  
25 few points that just have occurred to me as I read over  
26 your questions. I imagine that some of them are  
27 things that Dr. Petrie would be best prepared to speak  
28 on. On item 1, the brief review <sup>or</sup> resume of fiscal  
29 policy in recent years; I wonder if you would entertain  
30 a suggestion that "recent" there be made to mean the  
post-war period. I think if you are going to do this



1 it would be worth taking a fairly long sweep, because  
2 there are some fairly closely integrated developments  
3 which have gone right through the piece.

4 Under item 2, I don't think you are really  
5 contemplating there a complete study of the incidence  
6 of taxation, which is quite an elaborate sort of an  
7 exercise.

8 When you refer to the tax burden, I suppose it  
9 has to be read in the context of the rest of the para-  
10 graph that it has to be largely a statistical presenta-  
11 tion of the source of present tax revenues rather than a  
12 study of their ultimate resting place. Would that be a  
13 proper interpretation?

14 MR. LEACH: I think so, Mr. Commissioner. I  
15 think what we have in mind there is to pool together a  
16 number of sources which are available to us and try to  
17 summarize and comment on that.

18 COMMISSIONER PERRY: Item 3, of course, will be a  
19 statement strictly on behalf of the Chamber, as I read it.  
20 Now, in 4, the effects of taxation on business, just what  
21 is implied by the expression "on related earnings"? In  
22 fact, I wondered even if that might not be a typographical  
23 error and it is intended to refer to "retained earnings".  
24 It is your brief.

25 MR. LEACH: If it is a typographical error, it has  
26 passed the scrutiny of several pairs of eyes.

27 MR. KEEPING: I suspect it is one.

28 COMMISSIONER PERRY: There doesn't seem any-  
29 thing in the paragraph which has reference to related  
30 earnings.



1 MR. LEACH: May we amend it to "retained",  
2 Mr. Chairman?

3 COMMISSIONER PERRY: I would just like to  
4 suggest that there are two or three of these areas in  
5 which the Chamber could always produce some indigenous  
6 information. You are in contact with a good organiza-  
7 tion throughout the country, probably very closely in  
8 touch with small businesses particularly, and it may be  
9 that you can produce some substantial factual informa-  
10 tion on the effect of taxes, particularly on smaller  
11 businesses, and even more particularly on small  
12 businesses in various regions of the country.

13 Then you refer to municipal taxation;  
14 well, this again, I suppose, might be an awkward  
15 question. Will this be a study in depth or will you  
16 simply be reporting on general questions of the variety  
17 of treatments under municipal business taxation?

18 MR. LEACH: We don't wish to emphasize this  
19 point, Mr. Chairman. I think it will be a passing  
20 reference to the material already on hand which  
21 indicates trends and principles. It will only be a  
22 passing reference.

23 COMMISSIONER PERRY: Under 5, where you mention  
24 tax incentives, you say that you will deal with them.  
25 We naturally would appreciate any comment whatever.  
26 Again the real difficulty, though, is to have some  
27 actual information on the way in which these provisions  
28 are worked out in individual cases. So that any indi-  
29 cation that you could give of specific instances, where  
30 the incentive provision made the difference between





1 going ahead or not going ahead, would be very much  
2 appreciated and very helpful to the Commission.

3 We have found this, I think, with regard to the  
4 often-cited incentive measures in Europe. It isn't very  
5 difficult to obtain details as to what they are, but it  
6 is extremely difficult, if not impossible, to discover  
7 how in practice they have worked out and what their  
8 effect has been.

9 The rest is fairly straightforward, excepting  
10 that you are over and over again opening some fairly  
11 broad issues on which we would hope your conclusions  
12 will not only be profound but well-substantiated.

13 MR. LEACH: It was our deliberate intention,  
14 Mr. Chairman, to be broad, I don't say profound, and I  
15 am sure that the members of the Commission will realize  
16 how difficult it is to substantiate things on the basis  
17 of non-existent cases.

18 THE CHAIRMAN: It is very hard indeed. We are,  
19 of course, concerned that when one talks of the effects  
20 of taxation, we recognize the importance of this  
21 particular area.

22 You indicated to us a little earlier that you  
23 had taken a look at questions which had been submitted  
24 to you and you had certain notes among those questions.  
25 It seems to me that rather than interrogate you by  
26 reading you the questions, if you would care to speak  
27 to the questions from your notes, that might be the  
28 easier way. We can, of course, read the questions to  
29 you, but that would be a bit of a shambles.

30 MR. LEACH: Would you like us to go through



1 the piece, Mr. Chairman?

2 THE CHAIRMAN: Yes, I think so.

3 MR. LEACH: Well, with your indulgence, I  
4 will indicate the question and ask one or other of the  
5 delegation to speak to it, in order.

6 THE CHAIRMAN: Very good.

7 MR. LEACH: The memorandum starts off --- it is  
8 quite an undertaking.

9 THE CHAIRMAN: You cut it down to your own size.

10 MR. LEACH: The memorandum starts off with the  
11 main heading, "The Scope of the Inquiry. How far  
12 should the Commission go in hearing Submissions and in  
13 Undertaking Research Work with Respect to the Following:

14 a) The problems involved in the management  
15 of the public debt and the integration of  
16 changes in the money supply with changes in  
17 taxes by the Federal Government."

18 Now, this is a question which we thought  
19 Dr. Petrie would have some views on. Most of us are  
20 business and professional men and not well versed in  
21 this; but there is one man amongst us, Mr. Reid, who  
22 might have some qualifications in this area, and I  
23 would ask him if he had some comments on it.

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1 MR. REID: Well sir, if this is an area  
2 in which we are considering really the terms of  
3 reference of the Commission, it is a very broad area,  
4 but it is directly related to the considerations by  
5 the Commission of fiscal policy, and I would think that  
6 it would be very useful from the standpoint of the  
7 research committee to examine some of the instances  
8 involved in this that are more directly related to  
9 fiscal policy. In fact, I don't think that you can  
10 ignore the effects in the area of monetary policy of  
11 fiscal decision.

12 MR. LEACH: We must keep reminding ourselves,  
13 Mr. Chairman, that these questions are, as far as the  
14 Commission will go in this sense very important. Should  
15 social security charges be treated as taxes?

16 I would like to ask Mr. Hamilton to speak on  
17 this subject.

18 MR. HAMILTON: Mr. Chairman, it seems to me  
19 that some of the social security charges are in fact  
20 handled as taxes, the financing of the Old Age Pension  
21 for instance. Others start off on the insurance  
22 principle, such as the unemployment insurance fund, and  
23 a general, categorical answer to the general question  
24 would be difficult, but my opinion is that the answer  
25 to this question at this time should be in the affirmative.  
26 They should be regarded as taxes.

27 MR. LEACH: Question (c) What aspects of  
28 provincial and municipal taxation should be considered  
29 by the Commission?

30 This is a very important question. I will read



1 what we have here, and then I will ask some of the others  
2 to comment, but I think it is a subject upon which we  
3 are pretty well agreed. We say that the answer is:  
4 "Those aspects which impinge on the incidence of  
5 Federal tax should be considered. It would seem that  
6 budget requirement in the provincial and municipal  
7 fields are such that their taxation requirements will  
8 cause continuing pressure at the Federal level and  
9 furthermore that the elimination of multiple tax systems  
10 and administration might well be a desirable objective.  
11 These would seem to be two areas into which the  
12 Commission might enquire while still remaining within  
13 its terms of reference".

14 Mr. Hamilton has expressed views, if I can  
15 come back to him just to emphasize the point.

16 MR. HAMILTON: Mr. Chairman, I don't think  
17 I can add a great deal to what Mr. Leach has said,  
18 but it seems to me, coming from the Province of Quebec  
19 as I do, that the question of provincial revenues is  
20 a very good one, and will become increasingly important,  
21 and it seems to me that any changes, or any alterations,  
22 made in one tax structure, the Federal tax structure,  
23 will undoubtedly have an effect, or impinge on the  
24 provincial tax structures, where there are separate ones.  
25 So that I would agree very definitely that the Commission  
26 should take into cognizance the provincial and municipal  
27 tax problems of the taxpayer.

28 THE CHAIRMAN: Have you any suggestions as  
29 to how we should co-operate with the provincial  
30 authorities in endeavouring to promote the working





1 arrangements as changes in dominion and provincial taxes  
2 become desirable?

3 MR. HAMILTON: Mr. Chairman, I hesitate  
4 to try and answer that one. It is a very difficult  
5 question I know, and as everybody is aware there are  
6 commissions already set up in two provinces to examine  
7 the same field. I would hope that some means of  
8 co-operation and co-ordination could be developed, but  
9 I would hesitate to make any suggestions today, sir.

10 THE CHAIRMAN: Pursuing this subject one  
11 step further, as we are all well aware there have been  
12 proposals made at Tax Foundation meetings and elsewhere to  
13 ~~the desirability~~ of closer co-operation of provincial  
14 and federal governments as regards sales tax, that in  
15 fact they might be levied at the retail level, and the  
16 manufacturers' tax then given up. Will the Chamber  
17 eventually have something to say, do you believe, on this  
18 subject?

19 MR. HAMILTON: I believe it will, Mr. Chairman,  
20 yes.

21 COMMISSIONER WALLS: Will that study be on the  
22 relative merits of the three methods which could be taken?  
23 I mean not just the manufacturers' sales tax that we have  
24 today and the retail sales tax in conjunction with the  
25 provinces, but also it being moved forward to the whole-  
26 sale level?

27 MR. HAMILTON: Dr. Petrie has this under  
28 advisement, but my idea is that we would look at  
29 consumption taxes, which is the whole area that you have  
30 outlined.



1 COMMISSIONER WALLS: There is probably no  
2 organization that is before us whose scope is so wide  
3 that you could take an over-all look at this subject  
4 with advantage than the Chamber.

5 MR. HAMILTON: I would defer to Mr. Leach  
6 with his knowledge of what Dr. Petrie is doing on this.  
7 I think he has got some work in hand.

8 MR. LEACH: I don't know that I have the  
9 question very clearly. Could it be repeated?

10 THE CHAIRMAN: Commissioner Walls, could  
11 you please help out Mr. Leach?

12 COMMISSIONER WALLS: Yes. I would like if  
13 the Chamber could give study to the three areas of  
14 sales tax that could be employed. There are certain  
15 advantages and certain disadvantages to the existing one.  
16 Now, would you give consideration to it from the two  
17 other levels, as being from the wholesale to retail  
18 level, and as was mentioned previously at the retail  
19 level as well?

20 MR. LEACH: We will certainly be giving  
21 that consideration, Mr. Chairman.

22 THE CHAIRMAN: It is a most important matter.

23 MR. LEACH: I have the point now, yes.

24 COMMISSIONER BEAUVAIS: I suppose it would  
25 be collected at the provincial level, and then given  
26 back to a certain extent to the federal, if it is taxed  
27 at the retail level?

28 MR. LEACH: We have arrived, Mr. Chairman, at  
29 no point of view on a matter like that, but this is  
30 certainly one of the possibilities, I know.



1 THE CHAIRMAN: Would you proceed please,  
2 Mr. Leach?

3 MR. LEACH: Item (d): Should subsidies be  
4 treated as meditative taxes by the Commission? Well  
5 now, this again is a subject which we will have to  
6 study. The question is somewhat new to me. We  
7 think we know what it means, but could we impose on you,  
8 sir, to explain the exact significance of the question?

9 THE CHAIRMAN: Well, I think I can, but I  
10 am sure that Mr. Perry can. Would you take on  
11 this? I think I am merely exercising the prerogative  
12 of a Chairman.

13 COMMISSIONER PERRY: I would like to re-  
14 frame the question a little bit myself, but I think the  
15 main point of it is as to whether tax concessions  
16 and subsidies are alternatives. This is as I read  
17 the substance of the question.

18 MR. LEACH: This is what we assumed, but is  
19 there a further assumption, that it be answered in  
20 the affirmative then that the Commission would want to  
21 study the subsidy schemes as exist?

22 COMMISSIONER PERRY: Well, this is what we are  
23 asking advice on from you.

24 MR. LEACH: May we duck the question?

25 MR. REID: Mr. Chairman, does not this open  
26 the whole question of the problems of tax equity, tax  
27 concessions, subsidies, or tax incentives? This all  
28 involves an area of discrimination, and this becomes,  
29 I would think, one of the major questions which the  
30 Commission would wish to give very close examination to.



1 Certainly subsidies are direct in character for  
2 specific social and economic objectives which are  
3 within the terms of your reference sir. Tax incentives  
4 are also in this area, and tax concessions are  
5 relatively a form of semantics for the same sort of  
6 thing, which is the direction of fiscal policy within  
7 the country towards specific economic or social functions  
8 and this is a very broad area in which the Chamber  
9 has not as yet arrived at any conclusions. But since  
10 you asked us to suggest to you the areas which the  
11 Commission might give particular consideration to,  
12 this seems to be one of them.

13 In the area of monetary policy part of the  
14 debate on this subject has been the advantages and  
15 the disadvantages of general monetary policy exercised  
16 through the Bank of Canada, as distinct from the  
17 direct form of controls which could be applied to  
18 specific areas. Surely the problems are related in  
19 the fiscal area, and the question arises, which is both  
20 social and economic in its aspects, as to how far we  
21 would want to go in this country towards those kind of  
22 tax concessions and subsidies to particular industries,  
23 or sections of society, which in effect on the other side  
24 represent disincentives, which is a horrible piece of  
25 economic terminology, or penalties is a better word, to  
26 other economic sectors, or industries, or social  
27 segments in the country.

28 I think this is a very important area. The  
29 more you go in the direction of incentives in the  
30 incentive and penalty, the carrot and the stick approach,





1 the more there is actual government direction within  
2 the economy. How much of this, and how it is done,  
3 and whether it is desirable or not, is not something  
4 in which we are here to express an opinion today.  
5 There is, however, an area that is of very considerable  
6 significance, and which there has been a national  
7 debate over the past two years or so, and one which is  
8 perhaps of rather paramount importance.

9 It involves not only the question of in-  
10 centives and penalties as between industries within  
11 Canada, and economic functions, but also as between  
12 Canadian investment and foreign investment. It has  
13 these two particular significant aspects. It is  
14 certainly one which in our preliminary discussions  
15 in the Chamber has been given quite a deal of con-  
16 sideration.

17 We have not arrived at conclusions yet, but  
18 I think that recognizing that within any fiscal system  
19 there are bound to be certain inequities, the question  
20 is how much direction from fiscal policy is a desirable  
21 social and economic objective, and this is something  
22 which we will try to answer, and we would hope that the  
23 Commission would also give its attention to.

24 THE CHAIRMAN: Thank you indeed. May I deduce  
25 from your remarks that when a tax system provides  
26 incentives at the same time that results in penalties  
27 that action actually is equal to reaction in this  
28 area, and if so one must think very care-  
29 fully before initiating incentives  
30 because they operate for people with depreciable



1 equipment. The penalties operate I suppose against  
2 everybody else?

3 MR. REID: That is right.

4 COMMISSIONER GRANT: May I ask how far the  
5 Chamber will take any cognizance of regional incentives,  
6 to take a stand either in favour or perhaps against,  
7 but in any case will they look into it?

8 MR. REID: Mr. Chairman, I do believe that  
9 in the preliminary discussions that there has been  
10 reference to regional incentives. I would think that  
11 Mr. Leach would be more prepared to answer this  
12 question than I am, but I know that as a member of the  
13 Committee this has been discussed.

14 MR. LEACH: It is referred to, Mr. Chairman,  
15 in point 4 of our submission, page 2, and it is true,  
16 it is a reference to municipal taxes, but at least it  
17 indicates that we have the subject in our minds.

18 Item (e), should the Commission ignore the  
19 uses to which tax revenues are put in its appraisal  
20 of the effects of alternative rates of tax and  
21 alternative tax bases?

22 Mr. Hamilton, would you comment on that for  
23 us?

24 MR. HAMILTON: Mr. Chairman, this is another  
25 item that I think Dr. Petrie would have talked to had  
26 he been here, but in general I would think that our  
27 position would be that the tax system should be designed  
28 to meet the budget requirements of the government without  
29 specific reference to the breakdown of the expenditures,  
30 and that the use of the tax expenditures is a separate



1 field for inquiry, rather than being directly re-  
2 lated to the raising of such revenues. But again I  
3 submit that Dr. Petrie is the expert on this.

4 MR. LEACH: Question (f), should the Commission  
5 concern itself with the procedures by which Parliament  
6 deals with tax matters?

7 MR. HULBIG: Mr. Chairman, at first blush  
8 perhaps the answer to this question would appear to be  
9 no, but as we look into it, it seems almost to be  
10 inevitable as we look into the details of the legislation  
11 and see how it got that way, we must go back into the  
12 procedures which caused it to get that way, and there  
13 has been a growing feeling as to the question of  
14 are the Parliamentary procedures the best that could be  
15 devised. We do feel that this is a subject for  
16 investigation by your Commission which breaks down into  
17 several subjects, not the least of which is the veil  
18 of secrecy which is cast over all the financial  
19 procedure which goes on before the legislation comes  
20 upon it. It may well be that if the veil could be  
21 broken, that many of the problems would disappear, but  
22 to answer the question briefly, I think yes you should.

23 THE CHAIRMAN: Have you thought that there are  
24 areas where the veil could be broken without disturbing  
25 the economic effects of budgeting?

26 MR. HULBIG: There seems to be, without being  
27 too specific, many technical areas which could be dis-  
28 cussed with learned bodies and technical groups. In  
29 the experience which we have had in the past in dealing  
30 with government officials before or during budgetary



1 deliberations, their hands are tied, and they are not  
2 free to discuss. It would appear that in a number of  
3 instances there were discussions which would shed light  
4 on their problems, and on those of the taxpayers.  
5 Obviously tax rates could not be reached, or a new  
6 concept, but we do believe that there are a number of  
7 areas where secrecy is not necessary.

8 MR. THOM: Mr. Chairman, I think this is a  
9 matter which the Commission should be invited to give  
10 particular consideration to. In the mass of public  
11 discussion which we find in periodicals and books these  
12 days, comparisons are frequently drawn, not always  
13 favourable, between our parliamentary system and the  
14 American Congressional system, and the statement is  
15 made that our Parliamentary system does not give due  
16 consideration to regional needs, and as well to  
17 considering change in needs in the improvement and  
18 amendment of our tax system. Perhaps, without going  
19 over to the Congressional system with unlimited  
20 committee powers, there should be a greater capacity  
21 for the members of the legislation to become conversant  
22 with the laws that are passed, and I think the words  
23 of the Commission on that subject would have great  
24 weight.

25 MR. McNALLY: We have been in record in  
26 earlier briefs, and addressed ourselves to the question  
27 of how this might be organized in a better way, and we  
28 have said that the review by the Estimates Committee  
29 of certain Departmental categories was a good thing, and  
30 we said in earlier briefs that this should be extended to





1 other Departments. At the moment the Estimates  
2 Committee is perhaps looking into two Departmental  
3 estimates. We have said that we thought that there  
4 were certain committees now standing which might take  
5 up the estimates of other Departments, such as  
6 External Affairs for example, or the Industrial  
7 Relations Committee might look into the estimates of  
8 the Labour Department, to the end perhaps that estimates  
9 would not come at a great spurt towards the end of the  
10 Parliamentary rhythm; and there would be a more  
11 leisurely and greater review of estimates in Committee  
12 before they come into the House.

13 So, to the extent that this refers to that,  
14 I think we feel that your Commission might make some  
15 suggestions on this side of it.

16 MR. LEACH: Question (g), how far should the  
17 Commission go in comparing the Canadian tax system with  
18 tax systems in other countries? To what extent should  
19 it survey the tax systems of other countries for  
20 alternative concepts and approaches to taxation?

21 MR. HAMILTON: Mr. Chairman, we believe that  
22 it would be necessary for the Commission to obtain  
23 data to judge the incidence and economic future of the  
24 present Canadian structure, which almost inevitably  
25 would, we believe, require a comparison with the tax  
26 structure and practices in other countries, particularly  
27 perhaps those with a federal structure of government  
28 such as we have in Canada. We believe that the  
29 countries perhaps that are of particular interest in this  
30 review would be the United States, the United Kingdom,



1 and certain countries in the European Common Market.  
2 Possibly also Japan. Those countries have been  
3 suggested because they are ones which basically  
4 represent Canada;s competition in our export market,  
5 and also in our domestic market. It would seem to  
6 us, sir, that a knowledge of the tax systems in these  
7 countries would be a very useful information for the  
8 Commission to have. In this context too of course,  
9 certain of these countries have adopted novel, or  
10 different types of taxes, and perhaps they should  
11 be reviewed for application here as well sir.

12 THE CHAIRMAN: Thank you. We certainly are  
13 considering a review of foreign taxes. It is a nice  
14 question as to how to handle it.

15 MR. HAMILTON: Yes, but it seems to us, sir,  
16 that perhaps the Commission itself would have better  
17 facilities to do this than any other body.

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1 MR. REID: Mr. Chairman, aside altogether from  
2 an examination of the tax structure of other countries  
3 and the specific tax devices being used, this question  
4 could be extended to cover a much broader area of fiscal  
5 policy. I think it raises some very important considera-  
6 tions. The first one is, aside from the revenue require-  
7 ments of the federal government and, secondly, its social  
8 objectives in fiscal policy, how much real freedom does  
9 exist at the federal level in Canada in determining what  
10 is an appropriate fiscal policy in relationship to our  
11 interdependence with the rest of the world, and in  
12 particular reference to our close relationship with the  
13 United States, with a standard of living that is higher  
14 than ours in Canada, and where comparative tax rates,  
15 both at the corporate and at the personal income tax  
16 level, do have a very material effect on the Canadian  
17 economy?

18 Can we, for instance, in the personal income  
19 tax structure from a social standpoint as distinct from  
20 revenue requirements of the government support a  
21 structure at a level which is materially higher than it  
22 is in the United States in terms of the increased induce-  
23 ment to immigration to that country, and in terms,  
24 therefore, of our own economic growth? And the same  
25 type of consideration applies at the corporate level.

26 Then in the broad area of fiscal policy, in a  
27 country which has an open economy, with a fixed exchange  
28 rate and which probably, for many years to come, will  
29 require foreign long-term capital, how far can we go  
30 in deficit financing without materially affecting the



1 confidence of foreign investors in this country?  
2 How far can we go in special tax devices intended to  
3 provide perhaps incentives for Canadians as distinct  
4 from foreign investors without materially affecting the  
5 longer term objectives of an adequate level of economic  
6 growth, which surely is the basis on which all the other  
7 social objectives at least are made more likely of  
8 realization?

9 It seems to me that this is a very important  
10 consideration in the fiscal area as it is in the monetary  
11 area. In other words, it seems almost impractical to  
12 look only inward at fiscal policy without the very real  
13 limitations which are in effect established by our  
14 relations in our very interdependent world.

15 THE CHAIRMAN: Thank you, Mr. Reid. Well, I  
16 think we must realize that there are limits imposed by  
17 this interdependence of which you speak. I think we  
18 should be reasonably proud of the fact that this country  
19 has shown in the past considerable independence in all  
20 fields, not just in the tax field, and that, I think,  
21 has resulted in considerable advancement in our tax  
22 system, and in many cases we have led our great neighbour  
23 in these matters. So I would not like to leave a note  
24 that we are complete<sup>y</sup> shackled. I know you did not  
25 intend that.

26 MR. REID: No, I did not intend that at all.

27 MR. LEACH: Mr. Chairman, in these dying  
28 minutes of the second quarter we seem to be leaning to  
29 the right, but, notwithstanding that, I am going to  
30 ask Mr. Hamilton: At what point can a division be made





1 between the tax system as such and taxes as an aspect  
2 of trade policy?

3 MR. HAMILTON: Mr. Chairman, the Commission  
4 will certainly examine this question in some detail.  
5 From the point of view of whether we can today accept  
6 tariffs as a revenue-producing tax, which, of course,  
7 it originally started out to be, with all the inter-  
8 dependence which Mr. Reid has mentioned between nations  
9 today, it is possible that tariffs should be considered  
10 as an item of trade policy with their revenue-producing  
11 effects of secondary importance only.

12 It seems to us that there is today a wide gap  
13 between taxes and tariffs, particularly having regard to  
14 our international trade obligations and arrangements  
15 such as G.A.T.T. There is therefore our belief that  
16 we must examine this question, a gap between taxes and  
17 tariffs in the present situation, when we take our  
18 trading relationship between other partners in G.A.T.T.

19 Perhaps Mr. Reid would like to add to that.

20 MR. REID: No, I think I am in agreement with  
21 that. The broad area in which the Commission has to  
22 consider tariffs and trade policy may be left to the  
23 consideration of other commissions or by others.

24 COMMISSIONER WALLS: By the same token, would  
25 you then exempt from the Commission's study the matter  
26 of excise duty, which is, of course, a complementary  
27 charge.

28 MR. HAMILTON: We haven't really examined the  
29 problem at this point. Our first discussion was purely  
30 on tariffs. The excise was dealt with separately.



1 But undoubtedly the two are tied up, and our statement  
2 would deal with those two situations, sir.

3 THE CHAIRMAN: Thank you. I personally have  
4 no quarrel with that statement.

5 MR. THOM: With your permission, Mr. Chairman,  
6 might I suggest another heading under the general topic  
7 of "The Scope of the Inquiry," and I am sure it isn't  
8 found in subparagraphs a) to h) and possibly will be  
9 touched upon in part III, How does the tax system work?

10 A general introduction is that although it has  
11 this effect upon the economy and business communities,  
12 it also is with respect to each particular individual  
13 and business a particular personal matter day by day,  
14 and I think it is correct to say that business finds  
15 certain aspects of income tax particularly unsatisfactory.  
16 It is hoped that the Commission would have the oppor-  
17 tunity to examine these particular matters, such matters  
18 as the non-deductibility of capital expenses, the  
19 excessive reliance upon mechanical rules in the applica-  
20 tion of the tax law and the inability of business to  
21 receive assurance as to the tax consequence of its  
22 business transactions particularly because of the  
23 ambiguity in the tax Act itself. It is definitely  
24 unsatisfactory in relation to this particular business  
25 or that particular business today, and the Chamber  
26 would hope that the Commission would find some time  
27 to consider them in its inquiry.

28 THE CHAIRMAN: Thank you. The Commission will  
29 look forward at a later stage to hearing about these  
30 points in detail.



1 MR. THOM: Oh, yes, certainly.

2 MR. LEACH: The second main heading is,  
3 "Objectives of the Tax System," and therein is listed  
4 a number of objectives, followed by certain questions.  
5 Should others be considered? And if so, how should the  
6 Commission assess the costs of achieving particular  
7 objectives? Can the objectives be ranked in order of  
8 importance? I am going to ask Mr. Hulbig to lead off  
9 on this one general subject.

10 MR. HULBIG: It is not my intention, Mr.  
11 Chairman, to deal exhaustively with any one of these.  
12 We start off by saying that the chief objective of the  
13 system is to raise revenue, and perhaps that is under-  
14 stood, and we must qualify that objective, of course,  
15 by saying that it should be approached on the basis of  
16 being done in the fairest possible manner, and to the  
17 equity, of course, we must add such certainty that can  
18 be achieved, although I don't see that word specifically  
19 listed here.

20 Returning to the subject of equity, in terms  
21 of our submission this may be restated as neutrality  
22 versus discrimination. Other things may be full  
23 employment, economic growth, administrative efficiency,  
24 and the maintenance of private ownership.

25 Now, this is certainly one of the important  
26 objectives, and its accomplishment might be encouraged  
27 by the tax system by making investment by Canadians  
28 more attractive and investment by foreigners less  
29 attractive than at the present time.

30 Now, I think it is a little difficult with the



1 rule of law, although I shouldn't admit it. In one  
2 sense I suppose we have the concept of making the system  
3 less unattractive to taxpayers in the sense that they  
4 will not resist. If our laws are such that the taxpayers  
5 resist, then, of course, the rule of law comes into  
6 disrepute, and one objective is to frame the legislation  
7 in a manner that it can be understood and can be followed.

8 Now, if we are speaking of administrative  
9 discretion as opposed to broad definitions to be inter-  
10 preted by the courts, there again we have to strike a  
11 balance. In one extreme we have the excessive discretion  
12 in the war years, and perhaps/<sup>now</sup>we have very little dis-  
13 cretion. Perhaps somewhere in the middle is the right  
14 answer. Certainly one of the objectives is, of course,  
15 speaking for myself, to my mind at least, to encourage  
16 the rule of law as opposed to rule by administration.  
17 Let the courts decide where they can.

18 I think I will pass this back over to Mr.  
19 Thom, who may have a thought on the rule of law.

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1 MR. THOM: Well, it is highly desirable. The  
2 question is whether the public can stand it. I am not  
3 being entirely facetious. I think the questions of  
4 tax ability have to be settled somewhat more expeditiously  
5 perhaps than is possible in the access to the rule of  
6 laws, which might be understood by a lawyer perhaps.

7 MR. HULBIG: In that respect then do you feel  
8 that the Tax Appeal Board offers a halfway house between  
9 your point and mine?

10 MR. THOM: I didn't know that we were getting  
11 into an argument in this way. I think that the Chamber,  
12 and possibly more so the Bar Association and the  
13 Accountants, would have a good deal to offer in the way  
14 of suggestions of how the appeal procedures might be  
15 improved, to the general advantage of both the adminis-  
16 tration and the public, and I don't know that we are  
17 exactly different, but certainly the role of law is a  
18 very necessary thing, if you know what it means.

19 Mr. HULBIG: I think I said in the beginning  
20 that I was not very sure of what it meant.

21 Going on to responsible government, once again  
22 I think I have an inkling of what it means, but I am  
23 wondering what prompted the question from the  
24 Commission? I wonder if we could ask you, Mr. Chairman,  
25 what you had in mind? It is page 2, number(h).

26 THE CHAIRMAN: I think this is simply based  
27 on the proposition that things are said to be more  
28 certain in a dictatorship. What is the price for  
29 certainty?

30 MR. HULBIG: I would like to stand on what we



1 said earlier about the procedures by which Parliament  
2 deals with tax matters. I think in part we are dealing  
3 with the same subject. If the option is between the  
4 type of government we now have and dictatorship, then  
5 of course there is no discussion. I don't have any-  
6 thing more to add on that.

7           Going on then, price stability does not seem  
8 to be an objective of tax policy other than the general  
9 effect of high taxes on take-home pay leading to higher  
10 wages, thus higher costs and consequent upward pressure  
11 on prices. If corporation taxes are passed on to the  
12 consumer, tax changes - up or down - would have an  
13 effect on the price level.

14           To my mind the remaining objectives are of  
15 lesser importance in this study, the widest possible set  
16 of choices for the buyers and sellers of goods and  
17 services, a socially acceptable distribution of income,  
18 equality of opportunity, equalization of living  
19 standards on a geographic basis, and maintenance of  
20 adequate exchange reserves.

21           COMMISSIONER PERRY: Where have you put full  
22 employment? I missed that.

23           MR. HULBIG: We said that quite near the  
24 beginning as a matter of fact. We started off by  
25 speaking of equity and certainty, and then said some  
26 objectives would be full employment, and economic  
27 growth.

28           COMMISSIONER PERRY: I don't suppose that you  
29 really mean that you would tolerate a completely fair  
30 and equitable tax system which had brought the economy



1 to a dead stop?

2 MR. REID: This is not the suggestion.

3 MR. HULBIG: We were talking about objectives.

4 MR. LEACH: I am wondering whether the other  
5 members of our delegation would like to comment on this  
6 section, Mr. Chairman.

7 MR. REID: This is really a question of means  
8 rather than objectives. Some of this list of possible  
9 objectives, such as full employment, economic growth,  
10 and socially acceptable distribution of income,  
11 equality of opportunity, are a closely knit amalgam,  
12 which perhaps you could put under the heading of  
13 economic growth, an adequate level of economic growth,  
14 to produce a high level of employment. This is usually  
15 consistent with a reasonable level of price stability.

16 I would suggest that in attempting to direct  
17 fiscal policy towards providing a climate in which these  
18 objectives might be achieved by the private sector of  
19 the economy, because I assume that we are discussing  
20 fiscal policy in relation to the decision-making  
21 functions of the individuals who make up the private  
22 sector of the economy in Canada, I wonder whether the  
23 Commission will be giving consideration to the whole  
24 question of the timing of federal budgets in so far as  
25 fiscal policy is directed to the achievement of  
26 economic objectives. Recessions and booms do not  
27 fall into the very convenient 12-month-time intervals  
28 in which budgets are usually made.

29 This raises quite a number of questions on  
30 the whole accepted philosophy of budgets, and the



1 impact of fiscal policy on economic growth, and the  
2 time lags involved. It involves not only the question  
3 of whether in a given set of economic circumstances it  
4 might not be desirable to raise or lower taxes, Mr.  
5 Chairman, at some time other than the usual spring  
6 budget session, at a more frequent interval.

7 It also raises the rather interesting question  
8 as to what the effect on corporate investment decisions  
9 would be if there were some knowledge and assurance  
10 that the fiscal ground rules on which those decisions  
11 were going to be made would be in effect for more than  
12 a 12-month period.

13 I am not suggesting answers. I am only suggest-  
14 ing areas which I think would certainly be worthy of  
15 consideration, particularly in terms of the relationship  
16 to a fiscal policy, to a monetary policy in attempting  
17 to achieve a climate favourable to the economic growth  
18 of this country.

19 I was suggesting that the impact of fiscal  
20 policy in creating a favourable economic climate in  
21 this country is the first consideration. The second  
22 consideration is the timing of the policy.

23 THE CHAIRMAN: And the timing might well be  
24 the subject of interim budgets?

25 MR. HAMILTON: Quite right.

26 COMMISSIONER PERRY: Or the system which the  
27 British have, which now allows certain variations with-  
28 out a budget.

29 THE CHAIRMAN: Mr. Leach, are we going on  
30 another half-hour? If so, I would consider a break





1 of ten minutes.

2 MR. LEACH: Well, we will be guided by you,  
3 Mr. Chairman. If you can give us another half-hour I  
4 think we can finish in that time.

5 THE CHAIRMAN: If you can give us another half-  
6 hour we would be delighted. So we will have a 10-minute  
7 adjournment now.

8 ---A short recess.  
9

10 THE CHAIRMAN: Mr. Leach, you are down, I  
11 think, to the third category here, "How Does the Tax  
12 System Work?"

13 MR. LEACH: Yes, Mr. Chairman. We will now  
14 cover Section III, which is again a challenging section,  
15 a slight change of pace. I must say that there are a  
16 lot of questions in here that we are not very qualified  
17 to deal with, because your principal and over-all query  
18 is how the Commission should approach these research  
19 studies, and their relative importance.

20 I would like to say at the outset that we  
21 consider that none of the problems is trivial, which is  
22 one of your questions. We think they are all important.  
23 We are not particularly well prepared on this third  
24 section, so with your permission we will move through  
25 as rapidly as seems proper. As I say, there are these  
26 research projects listed as I understand it, and I will  
27 just read them as I go.

28 (a) The potential rule of fiscal policy as  
29 a stabilizing device in an open economy with a  
30 fixed exchange rate.



1 I personally couldn't comment on this. There  
2 are divergent points of view on it, but perhaps Mr. Reid  
3 could help us on it.

4 MR. REID: Well, I think in effect I have  
5 discussed this before. I think this really contains  
6 certain premises rather than asking a question. One of  
7 the premises involving a fixed exchange rate is  
8 presumably a measure of economic policy, of exchange  
9 policy, for the period of time in the future into which  
10 the Royal Commission will be examining. I would think  
11 there are two factors involved in this, accepting this  
12 as it now stands. One is the effect of federal  
13 government deficits on the decisions of foreign  
14 investors, and secondly the particular fiscal devices  
15 which apply to foreign investment. Both of these are,  
16 of course, of very considerable importance, and I would  
17 think would be given close examination by the Commission  
18 and by the research staff. I think we in the chamber  
19 would consider this of very considerable importance,  
20 accepting the premise of a fixed exchange rate as  
21 contained in this III (a).

22 MR. LEACH: Could you go on to comment on (b)?  
23 Do the built-in stabilizers really help to stabilize  
24 the economy? Could they be made more effective? What  
25 should be the emphasis on built-in stability versus  
26 discretionary fiscal policy?

27 MR. REID: Mr. Chairman, I think as some of  
28 the politicians said in the recent election when they  
29 were trying to think of an answer, that this is a good  
30 question and a good series of questions. Certainly



1 they are all questions which, based on what statistical  
2 experience we have, would surely be examined by the  
3 research staff. I have tried to add one other factor  
4 which I consider of some considerable importance when  
5 we talk about built-in stabilizers, and the word  
6 stabilizer is to some extent a contradiction in terms  
7 of economic growth. I think this should be considered.  
8 I think these are areas which certainly should be given  
9 consideration, and certainly will be considered by the  
10 Canadian Chamber of Commerce in its presentation to you.

11 MR. LEACH: Item c), does the progressive  
12 rate structure affect work incentives, the volume of  
13 personal saving, and the form of personal saving?  
14 How much and in what way?

15 Well, probably the answer is in the affirmative,  
16 but you don't want us to say that. Unless any member  
17 of this delegation cares to expand on it, I think we  
18 will have to pass that one over.

19 Similarly, item d), Does the corporation  
20 income tax significantly affect the volume and timing  
21 of capital expenditures? Does it significantly affect  
22 dividend policies? Does it significantly affect the  
23 method of financing capital expenditures?

24 Our questionnaires attempt to find an answer  
25 to that, Mr. Chairman, and we will be commenting on it  
26 in due course, but apart from that I think that we  
27 answer this question generally in our earlier comments,  
28 if you would agree.

29 Item e), How sensitive are foreign investors  
30 to differences in tax treatment among countries?



1 Well, again the answer seems to be in the  
2 affirmative, but we believe that it should be examined,  
3 and if possible verified.

4 THE CHAIRMAN: Have you considered how to  
5 proceed to examine it?

6 MR. LEACH: Well, this is our problem, sir.

7 THE CHAIRMAN: I have given a little thought  
8 to it myself without being very productive. It is  
9 extremely difficult.

10 MR. LEACH: I think we are unanimous on that  
11 probably, Mr. Chairman.

12 MR. REID: Isn't there an ancillary question  
13 here, of how sensitive foreign investors are to changes  
14 in tax treatment among countries, the instability of the  
15 ground rules in which you make foreign investments?  
16 How important is this, as distinct altogether from the  
17 ground rules itself? I think we have some recent  
18 evidence to indicate that change can be almost as  
19 important in affecting the decisions of a foreign  
20 investor as the specific tax devices, but this is  
21 something that warrants very careful consideration.

22 THE CHAIRMAN: Thank you.

23 MR. LEACH: Item f), Does the present tax  
24 system affect the geographic location of industry?

25 There again I can only give the same comment,  
26 Mr. Chairman, that we certainly think this should be  
27 studied, and no doubt the answer is in the affirmative,  
28 to some considerable degree.

29 Item g), The extent to which particular  
30 industries receive tax treatment which increases (or





1 decreases) their output relative to other industries.

2 This is one question upon which we would  
3 propose to comment at some length in our final submis-  
4 sion, but we are not yet in a position to do this, and  
5 it is a question upon which again various views are  
6 expressed.

7 Does any member of the delegation care to  
8 comment on that one?

9 THE CHAIRMAN: The tax system draws distinctions  
10 as between industries. We all recognize that. Will  
11 your comments relate to the merit of this distinction?

12 MR. LEACH: It may well do. I am afraid we are  
13 not in any position to indicate even a trend, because  
14 there are different points of view on this, and we will  
15 have to examine them very thoroughly, and as you can  
16 imagine the Chamber of Commerce, as a body, would want  
17 to be very careful about anything which was suggesting  
18 better treatment for one segment of the business  
19 community to another.

20 THE CHAIRMAN: Well, we are at least hopeful  
21 that you will give us some assistance in this area.

22 MR. LEACH: We will try very hard.

23 Item h), The effect of the tax system on the  
24 distribution of income.

25 Again, we will do our utmost to comment on  
26 this. We agree that it will be important to the  
27 Commission to obtain all the possible information they  
28 can on this subject, but I am afraid I am in the  
29 position of repeating myself, that certainly we here  
30 have very little to offer in the way of suggestions as



1 to research procedures.

2 Item i). I am afraid that we are in the  
3 position of being unable to comment on that at the  
4 moment.

5 Item j), The question of the effectiveness of  
6 tax incentives and our present view is, as you may have  
7 noticed from our brief submission here today, that this  
8 will be almost a major area of our study, and I would  
9 not wish to anticipate that either.

10 Item k). I am going to ask Mr. Hulbig to  
11 comment on this because of his familiarity with the  
12 subject. Have death taxes had a significant effect on  
13 the economy and on society?

14 MR. HULBIG: Mr. Chairman, that description of  
15 my knowledge is too fulsome. I don't know that I have  
16 had any experience in their effect on the economy. I  
17 have dealt with death taxes, and so I think you are  
18 thinking of the question of sales of privately owned  
19 companies, either to larger Canadian groups, or to  
20 non-residents, and certainly it is a topic of tremendous  
21 interest. All I can say is that now we are seized with  
22 the problem, and it seems <sup>a</sup> pretty fair assumption that  
23 many submissions will deal with it.

24 I would like to help, but that is all I can say.

25 MR. LEACH: 1), To what extent are business  
26 taxes shifted on to consumers or on to those who supply  
27 goods and services to business?

28 A very well known subject, Mr. Chairman, and  
29 one in which I am not at all qualified to speak. I  
30 think Mr. Reid and Mr. Hamilton may have views, bearing



1 in mind, gentlemen, that we are trying to suggest to  
2 the Commission how they should find the answer to this  
3 question.

4 MR. REID: I would only say that if this  
5 Commission can find an answer to this, it will have  
6 accomplished what many other Commissions, both on this  
7 continent and in Europe, have not been able to.

8 I think that this is a very useful exercise,  
9 but that it is not particularly relevant to the main  
10 body of the Commission's considerations. There have been  
11 some views expressed by similar bodies in other  
12 countries, but there has been no really definitive  
13 opinion. I would like to ask Mr. Perry, who perhaps  
14 would correct me, going back to the days of the  
15 Macmillan Commission in the United Kingdom.

16 COMMISSIONER PERRY: No, there are any number  
17 of definitive opinions, but it is a real difficulty.

18 MR. LEACH: Item m), Does the volume of  
19 revenues required have important implications for the  
20 selection of the "best" tax structure?

21 Now, this question, Mr. Chairman, if any, was  
22 the one that we thought might be unanswerable. This  
23 was the view of some of us, and unless anyone present  
24 wishes to comment further we can move on to the next one.

25 Item n), What flow of revenue will be required  
26 over each of the next ten years?

27 This we thought would be very difficult to  
28 answer, but some organizations have been quite success-  
29 ful in making general projections for a number of years  
30 ahead. We would feel sure that the Commission would find



1 itself very well qualified in that direction.

2 THE CHAIRMAN: Can you inform us where we can  
3 turn for this?

4 MR. HAMILTON: The Canadian Tax Foundation have  
5 taken it up to 1965. That is one source.

6 THE CHAIRMAN: Thank you. Are there any more?

7 MR. HAMILTON: Not that I know of.

8 MR. LEACH: Item o), What degree of reliance  
9 should be placed on personal income, corporate income,  
10 capital gains and commodity taxes?

11 We have nothing to suggest, Mr. Chairman, as to  
12 how the answer to that may be found.

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FF-1/BL/je 1 THE CHAIRMAN: You will presumably take a  
2 look at the desirability or non-desirability of capital  
3 gains taxation.

4 MR. LEACH: It will be difficult to avoid  
5 that. The Chamber of Commerce has not expressed any  
6 policy in that matter so far. We have it certainly  
7 not too far back in our minds.

8 You asked about sources. We have perhaps  
9 one suggestion to make in that area. We find the  
10 questionnaires are answered sincerely, with a fair  
11 degree of knowledgeability, but I think it would be  
12 very good, I think, to have one questionnaire rather  
13 than a series to corporate taxpayers, because, for  
14 obvious reasons, if they get one comprehensive question-  
15 naire they will answer it seriously; if they get a  
16 number of them they will get tired of it.

17 THE CHAIRMAN: Have you completed your  
18 statement on that?

19 MR. LEACH: Yes, almost, Mr. Chairman. Just  
20 one final remark.

21 THE CHAIRMAN: I meant with regard to the  
22 circularization of the questionnaires. You said it  
23 is desirable to get them in one. Does this mean that  
24 whereas you are sending out one, we should not encourage  
25 others to send them out or we should combine our efforts?

26 MR. LEACH: I meant the Commission itself,  
27 Mr. Chairman. Your question was, how could you obtain  
28 information, page 4 of this memorandum we are working  
29 from. I just wanted to make the point that one big  
30 questionnaire is better than small ones.



1           The final paragraph, of Memorandum No. 10,  
2 outlines the questions on tax structure. Well, they  
3 are all important, but we will concern ourselves  
4 particularly with the effects of personal income tax,  
5 the effects of business taxes, the structure of  
6 business taxes, the commodity taxes and the death taxes.  
7 This is the field in which we are most interested, most  
8 competent.

9 In conclusion, Mr. Chairman, I am going to  
10 call on Mr. Hamilton to make an observation which  
11 he made coming up on the train this morning in  
12 connection with your terms of reference. I think he  
13 had a rather interesting thought on this subject, if I  
14 could just find the particular location. Mr. Hamilton,  
15 you know what I am referring to?

16 MR. HAMILTON: Yes, Mr. Leach. Mr. Chairman,  
17 Mr. Leach has taken me rather at a disadvantage; I  
18 didn't know it was going to be brought out. But the  
19 point I felt was important in the Minutes appointing  
20 the Commission is where it says that the Commission is  
21 appointed to inquire into the incidence and effects  
22 of taxation imposed by Parliament, including any changes  
23 made during the currency of the inquiry, upon the  
24 operation of the national economy, the conduct of  
25 business, the organization of industry and the positions  
26 of individuals in courts. And I made the observation  
27 this morning to my colleague Mr. Leach that, after all,  
28 taxes are only paid by individuals, we don't tax things,  
29 and perhaps the most important part of these four  
30 sections in that introductory paragraph is the incidence of tax



FF-3

1 on the positions of individuals. I feel that that  
2 must be of paramount importance in this whole inquiry.

3 THE CHAIRMAN: Thank you, indeed,  
4 Mr. Hamilton. When you speak about individuals, you  
5 don't class that with families, I take it?

6 MR. HAMILTON: That is a very important  
7 point, Mr. Chairman. I speak of the individual as  
8 the individual in this country upon whom must fall the  
9 burden of taxation, and the family is another thing;  
10 a splitting of the income, if you like, is another  
11 thing. It is a thing which I believe is of importance  
12 in this country certainly. It may be worth the  
13 Commission's time to consider this matter.

14 THE CHAIRMAN: Thank you very much. I  
15 consider this important as to whether one taxes,  
16 in fact, individuals or actual families. I don't  
17 think it is quite the same.

18 MR. HAMILTON: No.

19 THE CHAIRMAN: Is that all, Mr. Leach?

20 MR. LEACH: We have been through our material,  
21 Mr. Chairman. We would be very glad to answer any  
22 questions which come to mind.

23 THE CHAIRMAN: Well, you have, indeed, pro-  
24 vided us with a most interesting afternoon. As you  
25 know, we spent the morning with the Tax Foundation.  
26 This has been a day for us, the full significance  
27 of which will take a little while to determine. We  
28 have heard a great deal indeed, and we had no idea when  
29 we introduced this principle of inviting people to come  
30 to tell us what our job was what might be the result.



1 I think it has been an excellent idea so far.

2 We are most grateful to the Chamber, and  
3 I am certain that if we are able to make any contribution  
4 it will be largely due to the assistance rendered  
5 by bodies such as the Chamber.

6 MR. KEEPING: Mr. Chairman, may I just say  
7 thank you to you, sir, and the Commissioners again for  
8 the opportunity we have had this afternoon. I think  
9 we have gained a lot from it, from the questions which  
10 you yourself and the other Commissioners have put, and  
11 we will go back reinforced in our desire to serve the  
12 Commission to the best of our ability.

13 THE CHAIRMAN: Thank you indeed, Mr. Keeping,  
14 Mr. Leach, and all of you. You have been very helpful.

15 Mr. Secretary, do we have anything else?

16 THE SECRETARY: Nothing for this afternoon,  
17 until tomorrow morning.

18 THE CHAIRMAN: At 9:30 tomorrow morning.  
19 Until then the hearings are adjourned.

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22 --- Adjournment.

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1  
2 ROYAL COMMISSION ON TAXATION

3  
4 Hearing held in the Board of  
5 Transport Commissioners  
6 Hearing Room, Ottawa, Ontario,  
7 on Wednesday, the 17th day of  
8 April, 1963.

9 COMMISSION:

10 MR. KENNETH LeM. CARTER -- Chairman

11 MR. J. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S. M. MILNE

15 MR. CHARLES E. S. WALLS

16 LEGAL ADVISER:

17 MR. J. L. STEWART

18 RESEARCH DIRECTOR:

19 PROF. D. G. HARTLE

20 SECRETARY:

21 MR. G. L. BENNETT  
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ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF OTTAWA, ONTARIO

April 17, 1963

TOPICAL INDEX

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Ottawa, Ontario  
Wednesday  
April 17, 1963

1

2 --- On resuming at 9:30 a.m.

3

4 THE CHAIRMAN: Good morning, everybody. We  
5 will come to order and commence our hearing.

6

7 Mr. Secretary, have you something for us this  
8 morning?

9

10 THE SECRETARY: Mr. Chairman, ladies and  
11 gentlemen, we have this morning Professor Slater of the  
12 Tax Study Group of Queen's University. Professor Slater  
13 is here to present their brief, which I enter into the  
14 record as Exhibit No. 5.

15

16 ---EXHIBIT NO. 5: Submission of Tax Study Group,  
17 Queen's University.

18

19 THE CHAIRMAN: Good morning, Professor Slater.  
20 We are indeed glad to see you. It is very nice of you to  
21 come and meet us this morning.

22

23 We are very well aware of the work you are doing  
24 at Queen's, and what is referred to as the Tax Study  
25 Group. The usefulness of this to us is of course  
26 recognized clearly by this Commission and its staff, and  
27 I understand that you and Professor Hartle, our Research  
28 Director, have developed a modus operandi, and I think  
29 before you start on what you have to say to us you might  
30 like to give us a word or two on the progress of your  
tax study, and just how it fits in with what you think  
the job of our Commission may be.

31

32 Now, it is our practice, as developed of course  
33 only yesterday, to ask participants if they wish to say  
34 a few words to us, and then to direct questions to them.

35





1 If that procedure suits you, we shall be very glad to  
2 hear from you.

3 By all means remain seated, if that is more  
4 comfortable for you. Do you have a few words to say to  
5 us before we direct questions at you?

6 SUBMISSION OF TAX STUDY GROUP,  
7 QUEEN'S UNIVERSITY

8 APPEARANCES: PROFESSOR DAVID W. SLATER

9 PROFESSOR SLATER: Thank you, Mr. Carter. I  
10 think it only fit that I acknowledge the help of my  
11 colleagues in this work. Although I am the fellow out  
12 front, many of the ideas have come from my colleagues.  
13 I should also acknowledge the support of the Canadian  
14 Tax Foundation for the what is by your standards rather  
15 modest program of tax studies that we are engaged in.

16 As some of you may know, in Canadian universities  
17 the field of public finance has been a rather neglected  
18 field for a long time, except for two things, interest in  
19 fiscal policy and economic stabilization, and interest in  
20 dominion-provincial fiscal relations, but aside from  
21 these two areas, public finance has been a relatively  
22 neglected matter in the universities, and I suspect that  
23 if it hadn't been for the work of the Tax Foundation it  
24 would have been neglected nearly entirely in this  
25 country.

26 We view our work with the Tax Foundation as a  
27 limited partnership operation. We hope to develop work  
28 in the field of public finance on a long term and sus-  
29 tained basis. We treat the limited set of studies that  
30 we are now doing as the first venture in this field, and



1 we have concentrated on the economic aspects of tax  
2 matters in these studies. We are focusing on economic  
3 growth and efficiency in our studies, and we hope that  
4 we will have drafts of a number of useful pieces of  
5 paper, useful in general and useful to you people and to  
6 the staff of the Royal Commission, available by the end  
7 of the summer. We won't, of course, be finished by then,  
8 but we expect to have a few useful pieces of paper by  
9 then.

10 With respect to this morning's session, I  
11 checked several times with your staff. They indicated  
12 that the purpose of the first set of hearings was ques-  
13 tion asking, rather than question answering, and the  
14 submission that we have made to you might best be  
15 described as one hundred questions and no answers.

16 We have concentrated on the economic aspects of  
17 your inquiry, not because these are necessarily the most  
18 important -- certainly they cannot and should not be the  
19 exclusive interest of any inquiry into taxation. This  
20 just happens to be our piece of territory.

21 In putting the brief together we have primarily  
22 begun at the end of what are the problems, the economic  
23 problems, and working back from there to taxation  
24 questions. I suspect that in your work you will do the  
25 analysis, and carry out your inquiry from both ends,  
26 that is, you will start from problems and work back to  
27 taxes, and you will start at taxes and work to problems.  
28 Our approach is entirely from the problems to the tax  
29 end. Again not with a notion that this is the only  
30 thing of interest, but it just happened to be one useful



1 way of approaching the problem.

2 Now, in looking at Canadian economic problems  
3 I think we would emphasize that the most serious problem  
4 has been the unsatisfactory realization of our economic  
5 potentials in recent years. There is some doubt also  
6 about the satisfactory development of our economic  
7 potentials, but I think that the unsatisfactory realiza-  
8 tion of the potential output, employment, and so on  
9 is the No. 1 problem.

10 It appears also that we have in Canada a variety  
11 of structural problems, or have experienced a variety of  
12 structural problems. There is a good deal of contro-  
13 versy about the nature and seriousness of these problems,  
14 but perhaps the most accurate reflection of the view  
15 that structural problems are important was put into the  
16 report of the Special Senate Committee on Manpower and  
17 Employment of, I guess, two years ago. I mention this  
18 because in that report the view was taken that we did  
19 have a number of structural problems, and the view was  
20 taken that tax policy ought to be arranged in some  
21 respects to deal with these problems.

22 In the brief which I have submitted to you I  
23 point out that at about the same time as the Senate  
24 Manpower Committee was dealing with these issues in  
25 Canada a comparable investigation was being undertaken  
26 in the United States under their Congressional Committee  
27 system, and they came down on the other side of this  
28 issue, which is by no means a settled issue.

29 That is how serious the structural problems  
30 are, but most people I think can see that there are



1 structural problems of some significance. So some  
2 people give great importance to these, and others less.  
3 I think that we are still in the midst of some uncer-  
4 tainty about conflicts between full employment and output  
5 in Canada on the one hand, and inflation, or balance of  
6 payments deficits on the other.

7 I have indicated in the brief that there is a  
8 substantial number of economists in the United Kingdom  
9 and the United States who argue that we still have to  
10 make a choice between full output and full employment on  
11 the one hand, and/or inflation or balance of payments  
12 deficits on the other hand. I don't think it is entirely  
13 clear just where that choice comes, and I don't think  
14 that even if you accept this position, that you should  
15 then sit on your hands, because if there is a choice the  
16 point at which these choices must be made will to some  
17 extent depend on the kind of institution structure we  
18 put in place, including the tax system.

19 Lastly, in mentioning problems I think that for  
20 Canada there is a serious concern about the competitive  
21 position that we have come to face in the world economy.  
22 A notion that somehow, and for some reasons, we have moved  
23 into a ~~poor~~ position in the last half-dozen years than  
24 we were in, let us say, the first decade after the war.  
25 There are exactly parallel worries in the United States  
26 about their position, and there is a very important  
27 question about the degree of that shift, the basis of  
28 that shift, and what policies might be adopted to deal  
29 with that shift.

30 With respect to policy I will mention only one





1 thing. I think that with respect to economic stabiliza-  
2 tion we are going through another period of disenchant-  
3 ment about the effectiveness of monetary policy. There  
4 has been a rather deeply rooted disenchantment with  
5 respect to the <sup>use of</sup> changes in government expenditures as a  
6 stabilization root, and the principal emphasis therefore  
7 in stabilization policy has come down on the side of tax  
8 policy, and as you know, there are some sceptics about  
9 the effectiveness of tax policy too.

10 I think one of the issues that is before you is  
11 the appraisal of the effectiveness of the tax system and  
12 tax policy with respect to stabilization goals, and I  
13 think this is something in which we will all have to try  
14 to make up our minds pretty soon.

15 The last thing on policy I would mention is this.  
16 It is a rather popular notion nowadays that the slowdown  
17 in realized economic growth in North America, and to  
18 some extent in the United Kingdom, is substantially due,  
19 not entirely due to, but substantially due to the nature  
20 of the tax system that we have and the level of tax rates.  
21 As you know, this view is being incorporated into a  
22 series of proposed tax changes and reforms in the United  
23 States. In Canada we have done one or two things that I  
24 think reflect this view. In the brief I indicated that  
25 it is by no means clear that the tax system and the tax  
26 levels have been a major factor in explaining the  
27 economic performance of, let us say, the last half-  
28 dozen years in North America, as compared with the, say,  
29 decade before that, and I have combed the literature on  
30 the subject. You can put together a case, but it is not



1 at all clear that the case for imputing the slowdown to  
2 any great degree to the tax system holds up as yet.

3 This would be all I would say at the moment,  
4 sir.

5 THE CHAIRMAN: Well, that is quite a bit.  
6 Thank you.

7 Has anybody got a question they would like to  
8 put to Professor Slater?

9 COMMISSIONER PERRY: Well, as we all under-  
10 stand this exercise was designed mainly to elicit views  
11 on profitable lines of study for the Royal Commission,  
12 and therefore any questions that I would put would  
13 mainly be with that in mind, rather than attempting to  
14 force premature conclusions from Professor Slater. On  
15 the other hand, at this stage I would like to put a  
16 very leading question, and that is simply this. Has  
17 Professor Slater formed any judgments, even at this  
18 stage, as to which are the more profitable areas of  
19 economic objectives for use of the tax system? He does  
20 indicate in various places that experience suggests  
21 that the tax system may be more efficient for stabiliza-  
22 tion purposes than some other devices. It is a little  
23 more difficult to see any message as clear as this when  
24 he is discussing economic growth. I am just wondering  
25 in terms of our own research program which areas he  
26 might think would be more profitably pursued by the  
27 Commission?

28 PROFESSOR SLATER: One of the things that I  
29 think it is very important for us to try to answer in  
30 tax studies is a question of what you might call form



1 and substance in the effects of the tax system. We all  
2 know that the tax system has led us in our individual  
3 lives to try to arrange our affairs so that we minimize  
4 our taxes, and in corporate affairs my understanding is  
5 that tax considerations are an important consideration  
6 at certain stages of decisions and organization and so  
7 on.

8 Now, the thing that I am not clear on is the  
9 extent to which the tax considerations in decisions are  
10 what you might call minor ones, to change the form  
11 in which you might do something, without altering the  
12 real substance of the decision. You do something, or  
13 you don't do it, and then, having made this decision,  
14 you then think about the tax aspects of the thing, so  
15 that you minimize your tax burden.

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1 Now, it is perfectly clear that the  
2 profession of chartered accountancy couldn't have  
3 grown in the way it has in the last 25 years without  
4 the development of the tax system, tax economists and  
5 tax lawyers, so that there is certainly a great deal  
6 of work to be done at every level to minimize the  
7 tax burden. But I think it would be an extremely  
8 valuable contribution to the Canadian public if we could  
9 get some idea of whether these tax considerations do  
10 affect decisions, affect them in a fundamental way  
11 or to some extent in a more superficial or surface way.  
12 And I think this is very important for studies of growth  
13 in that if the tax system, with the levels that we now  
14 have, affects the substance of economic decisions and  
15 business decisions very substantially, then it may  
16 influence both our over-all rate of growth and it may  
17 bring about major distortions in the way in which growth  
18 takes place.

19 I have quizzed people about this matter,  
20 and I confess that I have not been able to find satis-  
21 factory answers to the question. This, I think, would be  
22 one very worth-while area.

23 The second area in which I think the  
24 Commission might focus on objectives is with respect to  
25 allocation of investment funds. Six or seven years  
26 ago, when Professor Hood wrote his book on "Financing  
27 Economic Activity in Canada" for an earlier Royal  
28 Commission, he examined the issue as to whether the high  
29 levels of retained earnings, which were to some extent  
30 coupled to the way in which the tax system operated,





B-2

1 tended to distort investment in that companies which had  
2 earnings made investments which happened to be good  
3 and convenient and so on for their purposes but not  
4 necessarily so from an economic point of view. This  
5 has been a contention, and Professor Hood concluded that  
6 he could see no major distortions in the element of  
7 investment funds as a result of retained earnings, the  
8 high level of retained earnings. But both in the United  
9 States and Canada it seems that if this issue is being  
10 re-opened again; it seems as if you turned over over a  
11 stone six or seven years ago to see if there are any  
12 worms and you think you ought to turn it over again to  
13 see if they have come along. I think this would be very  
14 worth-while for the Commission to work on.

15 From what I have put in the brief, I believe  
16 that the effectiveness of tax policy with respect to  
17 stabilization should be worked over. I think that  
18 I have stated that more or less clearly.

19 Those are just a couple of things which come  
20 to mind, Mr. Perry.

21 COMMISSIONER PERRY: Thank you. Both of them,  
22 I would think, would involve some program of field study  
23 rather than desk work. The new information here would  
24 have to come from people who are actually making the  
25 decisions.

26 PROFESSOR SLATER: I have tried as a sort of  
27 dry run a piece of field work on the first of these  
28 questions, that is the effectiveness of taxes on  
29 decisions, and I found it extraordinarily difficult at  
30 field work level to get good answers, because, as I



B-3

1 understood the decision process in the two of the  
2 circumstances I encountered it, when the choices were  
3 made between this alternative, this one and this one,  
4 where you worked this one out more or less completely,  
5 including these tax aspects and you made finite  
6 decisions, actually what you did was make decisions on  
7 the balance of advantages, and in these circumstances  
8 it was extremely difficult to say what was the tax  
9 effect. But so did other things. It is very difficult  
10 to get answers at corporate level to questions such  
11 as this: How has the tax arrangement affected the,  
12 let's say, pay-off ratios or criteria you use in  
13 making a decision. Now, over time the criteria  
14 that is used by the corporation will change, but they  
15 change because of a whole series of things which change,  
16 and to obtain a partial tax effect on the criteria is  
17 very difficult.

18 I think this field work is very necessary,  
19 yes, but I think it is field work plus something more.

20 THE CHAIRMAN: Yes, I think so, Professor.  
21 It seems to me that the investor has regard to the risk  
22 and the return, and in measuring the return, taxation  
23 is one of a number of different costs, but taxation has  
24 to be considered. But only in that context, I think.

25 PROFESSOR SLATER: Yes. One of the things I  
26 found, Mr. Carter, was that people would acknowledge that  
27 the tax bill was large, but they would say to me when  
28 I was doing my field work that it is not a matter under  
29 our control, we can't do much about it. Therefore the  
30 only ones we can focus our attention on are the ones which



1 are influenced by our decisions. Of course, the thing  
2 catches you in the back door in that the funds which  
3 are available may be influenced by the tax system.

4 PROFESSOR SLATER: Yes.

5 THE CHAIRMAN: In discussing stability,  
6 Professor Slater, you indicate that there is some  
7 question as to the effect of monetary policy and simi-  
8 larly with respect to government expenditures, and there-  
9 fore we came down to tax policy. Would you say that we are  
10 coming to tax policy merely because of elimination of  
11 the other effects, that we have found that they are not  
12 particularly significant, and therefore we are looking  
13 in all directions?

14 PROFESSOR SLATER: I think there is something  
15 more to it than this, Mr. Chairman. At meetings of  
16 the American Economic Association two or three years ago  
17 there was a panel on tax matters, and one of the speakers  
18 asked this question: Why do we spend so much time  
19 worrying about tax policy with respect to stabilization?  
20 And they answered the question in this way -- and I  
21 think there was an element of wisdom about this -- that  
22 we run what you might call predominantly a private  
23 enterprise economy, with individual decisions and  
24 decentralized decisions, and when we run government  
25 policy with respect to the economy we mainly rely on  
26 trying to influence the environment in which private  
27 decisions are made.

28 Now, I think that tax policy is inherently an  
29  
30





1 attractive element to use in stabilization policy, be-  
2 cause it in a sense fits with this basic approach that  
3 we take to economic matters. Now, I am not arguing  
4 against government activities, but I think it is a  
5 very fundamental aspect to the thing. So there is what  
6 you might call a philosophical bent to using tax policy  
7 for these purposes as well as a question of feasibility.

8 Now, part of the problem on the expenditure  
9 side is that at the federal government level the amount  
10 of government expenditures on goods and services that  
11 is amenable to being shifted around fairly quickly for  
12 stabilization purposes is rather modest. One estimate  
13 I have encountered -- you can count these things up  
14 different ways -- one is that there are perhaps two or  
15 three hundred million dollars on goods and services which  
16 can be varied on a stabilization policy, and you cannot  
17 turn that tap off completely either. So you are bound  
18 to an instrument on federal expenditures on goods and  
19 services which is fairly small to the job to be done.

20 In the Canadian economy, to produce a five  
21 per cent increase in total expenditures in the community,  
22 is a question of swinging around demand by a couple  
23 of billion dollars, and to try to do this by expenditures  
24 of a couple of hundred million dollars is quite incapable  
25 of tackling a job of this magnitude.

26 Now, as many of you know, in the early post-  
27 war attack on the stabilization problem in Canada one  
28 of the conceptions that was awfully attractive was to get  
29 such use, such effective use out of variations in  
30 government expenditures as you could for stabilization





1 purposes. The principal expenditures that appeared  
2 to have uses in this connection lay with the  
3 provincial-municipal governments, and the conception of  
4 using timing grants was instituted. This was never  
5 accepted, and I think it is true that we have never made  
6 use of federal government expenditures, or very little  
7 use; we have never made use at the provincial-municipal  
8 level. I think that this is one of these area which,  
9 as a sort of background matter, is of concern to your  
10 Commission.

11 I would almost put the thing this way, that  
12 governments have little enough to use for effective  
13 stabilization in other policies, their power and influence  
14 is comparatively modest. Therefore we have to try to  
15 use a lot of other little things and to use your  
16 expenditure side a bit and try to improve that.  
17 But I think to this extent we have to rely on the tax  
18 system because of feasibility generally and because of our  
19 general philosophical approach and the way we run our  
20 general economic system.

21 COMMISSION WALLS: Now, Professor Slater, during  
22 the post-war period, [post World War II] period, there  
23 has been no appreciable change in the Canadian tax system.  
24 Now, during the same period we have had a number of  
25 upsurges in our economy, followed by periods of  
26 recession. Generally speaking, these upsurges have  
27 been credited to the immediate post-war demand for  
28 consumer goods, and then the Korean war and the cold war,  
29 and so on.

30 In view of these circumstances, then, can the



1 existing tax system be blamed either for the upsurges  
2 or for the recessions? And if not, why is it considered  
3 or why would you consider that a new tax structure can  
4 now encourage economic growth?

5 PROFESSOR SLATER: You cover a lot of  
6 territory, Mr. Walls. I think I would begin by saying  
7 that both the structure of our tax system and the  
8 active use of tax policy have played a significant role  
9 in the post-war experience of Canada with respect to  
10 growth and with respect to stabilization.

11 To deal with the growth side first, I think  
12 it is probably apt to say that Canada, at the end of  
13 the war, in economic affairs reflected a mixture of  
14 confidence and uncertainty, confidence that arose out  
15 of the wartime performance, both military, economically  
16 and industrially and other ways, and uncertainty which  
17 I think arose in two sorts of threads: one, the  
18 uncertainty of how we were going to earn a good kind of  
19 living in the world that was emerging after the war,  
20 particularly a United Kingdom that had suffered so  
21 badly and a Europe which had suffered so badly, and  
22 uncertainty also about the ability in Canada post-war  
23 to avoid the kind of economic breakdown that we had had  
24 in the 1930's; and I think that in the years at the end  
25 of the war and after the war our tax system, our tax  
26 policy and many other elements of our policy were arranged  
27 in ways to try to achieve this success in avoiding the  
28 1930's experience, and also to provide, to find a way  
29 for Canada to make a good living in the new kind of world  
30 that was emerging.



C-AG-hb

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1 Our trade policy, our participation in the international  
2 monetary arrangements, and so on, were part of the story,  
3 but I think also we did make a major overhaul in, for  
4 example, the capital cost allowances. In the monetary  
5 policy that was followed in the trade restriction  
6 policies there was a great deal of emphasis given to  
7 the stimulation of investment. We had at that time, and  
8 we had in fact until 1962, a scale of capital cost  
9 allowances in this country which was very much more  
10 generous than, let us say, that in the United States.  
11 We converted a number of -- well, I think we extended  
12 and made intensified use of various sorts of incentive  
13 devices in our tax arrangements to bring about the  
14 development of the new staple products that we thought  
15 were fundamental to our making a decent living in this  
16 new world. So I would say that the tax system was used  
17 at that time with respect to the growth problems that  
18 were envisaged, along with other policies.

19 With respect to stabilization, I would say that  
20 the tax system and tax policy both were used from time  
21 to time rather successfully from a stabilization point  
22 of view. We have a rather large element of built-in  
23 stabilizers in our economic system nowadays, of which  
24 the most important I think arise from the tax structure.  
25 Looking back on the post-war record as a whole, the  
26 performance in economic stabilization has been not all  
27 that bad, and I think that some part of the credit for  
28 that performance should be put to the tax system and to  
29 the tax structure. We also made an active use of tax  
30 policy for stabilization purposes most notably between





1 1949 and 1955, and there were taxation changes in 1957  
2 which also had stabilizing effects.

3 I think that the record is one of a tax system  
4 and a tax policy which, not perfectly and not all the  
5 time as well as it might have, has performed both with  
6 respect to the kind of growth prospects and problems  
7 that we saw at that time and with respect to stabiliza-  
8 tion. I think the issue is not one of whether this  
9 stuff can be effective or not, but rather an issue of  
10 whether for the circumstances that we are now in, and  
11 for the kinds of problems that we now face, or are  
12 likely to face in the future, whether we can improve  
13 the system.

14 COMMISSIONER WALLS: You rather emphasize  
15 improvement than change of tax structure, is that it?

16 PROFESSOR SLATER: Yes, I would emphasize  
17 improvement. I don't see that our problems are so  
18 serious, or so amenable to tax policy, that we in a  
19 sense have to undo everything that is there, and put  
20 something completely and radically new in place. I  
21 think it would probably be very useful for all of us at  
22 this stage of the game to stretch ourselves out to  
23 think about radical ideas. I think that this is  
24 terribly important, because they will to some extent  
25 sharpen up our views on things, but I think I would be  
26 very surprised if what you might call a complete ripping  
27 down and rebuilding is in the nature of the problem at  
28 the moment.

29 THE CHAIRMAN: Professor Slater, you refer to  
30 the contribution our tax system has made towards





1 stabilization in the past, and I think that the record  
2 as regards stabilization might be considered to be very  
3 good, as is indicated, but I don't follow you how the  
4 tax system has contributed to such a stability, unless  
5 it is perhaps the high rate of personal income tax?

6 PROFESSOR SLATER: I think the personal income  
7 tax is the most important element of this, and I think  
8 actually the exemption structure is perhaps even more  
9 important in this regard than the progression in rates.  
10 The stabilization that results from this arrangement is  
11 what you might call not absolute, but relative. That is,  
12 the system that we have means that the government's  
13 revenue declines more than the private sector's revenue  
14 as it were after tax as economic activity declines, and  
15 on the other hand that the government's revenue increases  
16 more than the private sector's after tax when the  
17 economy is expanding. To this extent the tax system in  
18 essence means that the spending by the private sector  
19 does not need to vary as much as what you might call  
20 their before tax income, and this is something well  
21 worth having.

22 It is not the only thing that is important,  
23 but it is well worth having. There are certain of the  
24 excise taxes which, because of the way in which  
25 expenditure patterns get changed over time, and in a  
26 cycle, also make minor contributions in this respect.  
27 It is not the only one of these things, but it is  
28 probably one of the more important of them, and I think,  
29 Mr. Chairman, that the exemption structure is just  
30 terribly important in the powerfulness of the cutting



1 edge of this instrument.

2 THE CHAIRMAN: Thank you. I think I begin to  
3 understand.

4 There is a question which I have marked on  
5 pages 3 and 4 of your submission, which are the words  
6 "... living beyond their means, ---". We have got very  
7 used to being lectured in this country on the fact that  
8 in the last few years we have been living very high. It  
9 is rather comforting to us to have you disagree with  
10 that viewpoint, but I am curious why you have come to  
11 the conclusion that such a statement is meaningless  
12 jingoism.

13 Would you care to expand on that?

14 PROFESSOR SLATER: That is a flippant phrase,  
15 that I should not have included, sir.

16 THE CHAIRMAN: I am delighted that you did.

17 PROFESSOR SLATER: The phrase "living beyond  
18 one's means" I think presented in an unqualified way is  
19 a phrase which I think captures our attention, and  
20 drives us into thinking about problems, and I think  
21 serves a very great usefulness in this regard. I think,  
22 however, that it is a beginning point for one's ques-  
23 tions, not an ending point. Young men live beyond their  
24 means while they are raising a young family, or educating  
25 themselves. Corporations live beyond their means when  
26 they are carrying out a major development program.  
27 Municipalities live beyond their means when they are  
28 building schools, roads, sewage treatment plants, and  
29 so on. So that if one uses living beyond one's means  
30 in a totally unqualified way, I think you are really not



1 getting down to the issues.

2 Now, there are two or three aspects of this  
3 general area that I think we should consider. The first  
4 one I think is our external position. I think that you  
5 all know, and you are all aware, of the fact that we in  
6 Canada have been net borrowers from abroad more or less  
7 continuously now for a bit more than a decade, borrowing  
8 at rates that varied from, oh, two per cent of our  
9 national product up to six or seven at the peak. This  
10 in effect means that we have been carrying on public and  
11 private investments in Canada which have been larger than  
12 our current savings in Canada. Our current savings in  
13 Canada are large. That is, Canada is one of the higher  
14 saving countries of the world, but despite those high  
15 rates of saving we have been carrying on, as I say,  
16 public and private investment, predominantly the public  
17 and private investment, at rates which were higher than  
18 this.

19 Now, in one sense then this constitutes a  
20 living beyond means. Throughout most of the period when  
21 the capital inflows were as large as they were it is  
22 quite clear that the equivalent was a high level of  
23 public and private investment. Whether we are living  
24 beyond our means then really becomes a question of  
25 whether we are in a sense making effective use of  
26 the investment funds that came available. You could say  
27 we were living beyond our means if we were, as it were,  
28 borrowing and investing in rather useless and unproduc-  
29 tive sorts of things.

30 Now, it is quite clear I think that in any major



1 investment boom of any country there will be mistakes  
2 made in investment programs. Something will be put in  
3 place in too big a scale, or prematurely, or something  
4 else. I think this is in the nature of making investment  
5 decisions, but it is one thing to have what you might  
6 call some mistakes, which I think are inevitable in any  
7 kind of investment boom, and another thing I think to  
8 act as if the general process of investment has been just  
9 thoroughly unsatisfactory.

10 I accept perhaps for the, oh, the bad luck of  
11 the way in which the uranium industry developed -- I  
12 don't know of many mistakes in the investment boom of  
13 Canada in the fifties that rank with the classic  
14 Canadian mistakes in investment boom, namely the over-  
15 building of railroads, which is appropriate to this  
16 building, the overbuilding of railroads before the First  
17 World War. I think this is the classic mistake in  
18 Canada of a huge investment boom that went awry. I  
19 don't know of anything which is quite so clearly of that  
20 nature in what has been developed in Canada in the  
21 fifties.

22 In other words, I think it is an unproved  
23 proposition that the huge investment that took place in  
24 Canada that was associated with this big investment  
25 boom and this big capital inflow, it is an unproved  
26 proposition that this was very heavily weighted with  
27 unproductive elements. I think there was an element  
28 of prematurity in some things, and there were some  
29 mistakes, and so on. One version, as it were, of  
30 accepting the idea of Canada living beyond its means





1 would be to accept the view that this big piece of  
2 public and private investment really was extremely  
3 unproductive, was a great mistake. I think that is a  
4 decision you have got to make to accept the living  
5 beyond means.

6 One other thing. In more recent periods, if  
7 you look at the national saving and investment account,  
8 overall government deficits have been a part of the use  
9 of the saving that came available from domestic sources,  
10 and from abroad if you like. Now, the notion then might  
11 be that we have been borrowing from abroad to maintain  
12 consumption, and that we have been doing this through  
13 the vehicle of government deficits. Now, I think on a  
14 superficial level there is something to this, but I don't  
15 think all that much. It is a temporary phenomenon.

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1 And I think the great difficulty with this approach is  
2 that we are picking out a particular piece of the use  
3 of saving and matching it up with a particular element  
4 of the source of finance, and you are in effect saying  
5 that this piece is explained by this element or thus  
6 the capital inflow is explained by and is entirely due  
7 to government deficits. I think it is really a false  
8 piece of arithmetic.

9 Now, I will say something on living beyond  
10 means, and that is this. At the end of my brief I  
11 put some emphasis on the general area of economizing  
12 in the provision and use of public goods. I think that  
13 we have got to the situation in Canada where it is  
14 extremely difficult for people to make any kind of  
15 rational choice and ranking and what is put in place  
16 in terms of a government program and how it is paid for.  
17 I know there are very severe limits in the way in which  
18 any kind of matching up can be done, but I don't think  
19 we have explored the limits, I don't think we have  
20 explored this area enough. We could have governments  
21 take on some activities in which the living beyond means  
22 appellation would apply; I don't rule this out entirely.  
23 But I don't see that it is a problem, the one problem of  
24 Canada. I don't see what you might call a government  
25 and a government-induced austerity approach to things  
26 is the kind of policy which makes sense to Canada at this  
27 time, because one of the major implications of this  
28 acceptance of living beyond means in a sort of un-  
29 qualified way, one of the major things is that austerity,  
30 a poor mouth and a zippered-up pocket is a way to take



1 care of our problems, and I don't think this is so.

2 THE CHAIRMAN: Thank you, Professor.

3 COMMISSIONER BEAUVAIS: Professor, when you  
4 implied that we borrow from outside, from the United  
5 States, for instance, it may be that is because the  
6 investors do not want to invest in equities in Canada,  
7 and do you think in that way we are living beyond our  
8 means if we do that?

9 PROFESSOR SLATER: This raises a very  
10 interesting general area which I have puzzled over,  
11 Mr. Beauvais, and I am not sure I have very good answers  
12 to this.

13 The first thing I will say is that I am not  
14 at all convinced that Canadians are unwilling to invest  
15 in equities. You cannot pick a blue-chip set of  
16 Canadian industrial securities and earn a dividend that  
17 is comparable to what you can get on a comparable set  
18 of items taken off the New York Stock Exchange. I know  
19 that; I have worked it out. If you look at the enormous  
20 success of mutual funds in this country, if you look at  
21 the development of pension plans which have, many of them,  
22 participation in equity funds, if you look at all these  
23 things you see that there is a great interest in investing  
24 in equities in this country.

25 I think it is true that we have traditionally  
26 done more of our personal savings through accumulation  
27 of equities in life insurance companies, in annuities  
28 and in housing, all of which have some tax advantage as  
29 compared with other alternatives. It may be that we  
30 have put more of our saving flow into these uses or



1 through these channels than makes sense. It may be that  
2 there has been some restraint in investment in equities  
3 in Canada, but I am not sure that it is a major source  
4 of difficulty. We have a very much more generous  
5 dividend tax credit system than the United States has,  
6 so that the position of a person investing in equities  
7 from a tax point of view is a rather favourable one.

8 Now, the thing that bothers me a bit about  
9 this foreign investment versus Canadian sources  
10 investment side is that there is such a mixture of  
11 things, it is so difficult to know where the balance  
12 comes out. We have got, I think, some very good  
13 Canadian companies, Canadian companies that in terms  
14 of their productive performance are good by any test.  
15 We have some which are competing extremely effectively  
16 in world markets, we have some that are recognized as  
17 being very good technically, and these companies seem  
18 to have no difficulty in obtaining finance. In recent  
19 times we have had a series of new issues, rates  
20 and things of this sort which have gone very well. I  
21 don't really know, I believe there is quite an interest  
22 in equity investment. It may be that there are too  
23 few equities available. It may be that there is still  
24 some improvement to be made in this area. It may also  
25 be that we should have a very substantial improvement in  
26 the flows of funds for risk investment. But, as you  
27 know, three of the most interesting developments in the  
28 last three and a half years have been the development  
29 by some life companies, and in Quebec, the Quebec Finance  
30 Corporation, to, in fact, get out into this game much





1 more actively. It seems as though a lot of the funds  
2 are going to get into the equity employment.

3 I don't know whether I am catching your  
4 question.

5 COMMISSIONER BEAUVAIS: Yes, thank you,  
6 Professor. I was also referring to bond financing  
7 in the States, for example. Although you have in  
8 Canada a high level of saving<sup>N</sup>, some companies are  
9 obliged to go to the United States to borrow funds  
10 because people do not want to buy those securities.  
11 But it doesn't mean in such a case that we are living  
12 beyond our means.

13 PROFESSOR SLATER: I don't think so. It  
14 returns to a large extent to what you do with the  
15 resources you get. Are we, collectively, making  
16 effective use of the resources which are being made  
17 available to us? And I am prepared to concede that  
18 there were errors, but I think errors are part of any  
19 major period of development, and I am not at all sure  
20 that we have had more or an undue proportion in that  
21 last experience of ours.

22 THE CHAIRMAN: Professor, is there any study  
23 which indicates or explains that funds received from  
24 abroad are frittered away in consumption, riotous  
25 living?

26 PROFESSOR SLATER: I don't know of any,  
27 Mr. Chairman. There have been a lot of allegations to  
28 this effect, and there are a lot of rather superficially  
29 appealing comparisons to be made, such as the combined  
30 deficits of Canadian governments, let's say, between 1958



1 and 1962, which would amount to about -- I forget the  
2 exact numbers -- say 70 per cent of the capital inflow,  
3 and the sort of thing that people leap on is not an  
4 answer that we have been going this way, it is part of the  
5 government deficits. I think this is not really quite  
6 a fair way to get a cut at the thing.

7 COMMISSIONER BEAUVAIS: I would add another  
8 question, Professor, on the same subject.

9 You stated that government deficit doesn't  
10 mean that we are living beyond our means, because you  
11 mentioned the construction of schools, and so forth,  
12 and other investments. But if that represents  
13 current expenditures over current revenue, don't you  
14 think that this is living beyond our means?

15 PROFESSOR SLATER: I think in considering  
16 government deficits -- I am sure you people are going  
17 to be sick and tired of this before you get through  
18 with it, but I think it is rather important that you  
19 make a distinction between the deficits which are  
20 associated with substantial unemployment and under-  
21 employment of productive activity and the deficit  
22 position you might be in if you were achieving reasonably  
23 satisfactory levels of productive activity; and a very  
24 substantial part of the deficits, particularly of the  
25 federal government, in recent years -- I am speaking  
26 now of deficits in a cash sense rather than in a  
27 budgetary sense or deficits in a national accounts sense--  
28 a very substantial portion of those deficits is a  
29 reflection of the under-employment of people and pro-  
30 ductive capacity.



1 I think that the term living beyond one's  
2 means is hardly a right phrase, even as a lead-in  
3 question, about that part of the deficit that is  
4 associated with depressed economic activity. So I  
5 think we must turn to the other side of it, we must  
6 look at the deficits which we would have in a situation  
7 closer to full employment.

8 Now, I think -- the staff can put the numbers  
9 together for you -- I think the numbers will show that  
10 the public investment, things that are called public  
11 investment and clearly identifiable as public invest-  
12 ment, schools, roads and all that sort of stuff, has  
13 amounted to much larger magnitudes than the deficits  
14 of governments, aside from this depressed condition  
15 situation. In other words, if you take all of our  
16 levels of government together, we have been financing  
17 a part of that which is clearly public investment out of  
18 current revenue as a rather standard part of our  
19 procedure. I think, if anything, we err on the side  
20 of conservatism in that kind of financing.

21 So I don't think that it is fair to even use  
22 this appellation of living beyond one's means with res-  
23 pect to government deficits.

24 Now, there is a very big issue on which my  
25 professional brethren are sort of split down the middle,  
26 and this bears on the question of what is an appropriate  
27 policy for government deficits or surpluses from a  
28 long haul point of view. There is one school of thought  
29 that we, collectively, not just Canadians but Canadians,  
30 Americans, tend to carry on saving, even if we save at too



1 low a level for a high rate of economic growth, and  
2 to some extent you might try to influence this by  
3 the government being a saver, that is running surpluses,  
4 because that is a species of saving from the point of  
5 view of the society as a whole.

6 There are, as I say, some economists who  
7 have come down on that side of the thing; there are  
8 others who have got great skepticism about this, others  
9 who think that the problem that we are more likely to  
10 face is excessive saving rather than deficient saving,  
11 and I don't think that this issue is by any means  
12 settled yet. But I think it would be helpful in your  
13 work if your staff were to at least try to sort out this  
14 issue and things which bear on it, because the long-  
15 term approach to government deficits to some extent  
16 depends on the answer to this question.

17 THE CHAIRMAN: Thank you, Professor.

18 I think we will break for ten minutes now.  
19 I would like to come back to the question of deficits.

20 ---Recess.

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1 THE CHAIRMAN: The hearing will come to order.  
2 Mr. Grant I think has some questions.

3 COMMISSIONER GRANT: Professor Slater, before  
4 having the subject of government deficits there are two  
5 or three questions which I personally, and I believe the  
6 members of the Commission, would like to hear you  
7 elaborate on.

8 First of all, I take it that you are an  
9 adherent of the cyclical budgetary system? You subscribe  
10 to that?

11 PROFESSOR SLATER: The answer I think would have  
12 to be yes, for three reasons.

13 First, that I think there is a job of attempting  
14 an economic stabilization policy that is required.  
15 Secondly, that this is a collective, or governmental  
16 job primarily in part because no private institution,  
17 or group of them, has the means to take primary responsi-  
18 bility for this. Thirdly, because to try to do this  
19 stabilization job while running a balanced budget each  
20 year I think is quite unworkable. It is quite unwork-  
21 able because the degree to which government expenditures  
22 would have to be changed around from one point of time  
23 to another would be so large as to be completely  
24 unfeasible. A number of economists have suggested that  
25 it is technically possible, or theoretically possible,  
26 to carry out a stabilization policy while balancing a  
27 budget annually, but for Canada this would involve,  
28 just to give rough orders of magnitude, changing  
29 government expenditure around in periods of 18 to 24  
30 months in levels of 12 billions to 24 billions of dollars.



1 This I think is so impossible a mechanism that I think  
2 you must in your stabilization policy follow, if you  
3 like, on a year to year basis, and depending on the  
4 circumstance an unbalanced budget approach.

5 The question, I think, is whether it makes  
6 sense to aim for budget balancing over a cycle, or over  
7 a series of a couple of cycles, and in what sense this  
8 is desirable in the light of the public investment  
9 activities of governments, but these are the considera-  
10 tions that lead me to be an adherent of that school of  
11 thought.

12 COMMISSIONER GRANT: Well, now, does that  
13 school of thought attempt to state the term of the cycle?  
14 I am under the impression that it is on a 10-year basis.

15 PROFESSOR SLATER: I think if one was to  
16 examine the past record, Mr. Grant, that there has been  
17 a good deal of variation from one cycle to another in  
18 the duration of the cycle, and in the degree of fluctu-  
19 ation that takes place. The business cycle theorists,  
20 and I don't consider myself a business cycle theorist  
21 in any sense of the word, but the business cycle  
22 theorists talk about a business cycle as something  
23 which has certain general characteristics which can be  
24 identified, and which tend to hold from one cycle to  
25 another, but a rigid period of time as the duration,  
26 or a precise degree of variation, is not one of those  
27 characteristics that holds from one cycle to another.

28 The development that I think is most interest-  
29 ing at the moment, and I think perhaps the one that may  
30 be quite relevant to your work, is of trying to get a



1 sort of more meaningful classification of the sort of  
2 problems that one encounters. Let me put it this way.  
3 We have had business cycles, fluctuations in the post-  
4 war period, but we have also had periods of what we  
5 might call growth cycles. That is, business cycles that  
6 took place up until 19-- well, say the one that had a  
7 terminal peak in 1957, were in a sense superimposed on  
8 a period of rather rapid growth in a realized sense.  
9 The ones we have had since have been imposed on a period  
10 of slower growth in a realized sense.

11           There is a problem over and beyond the strictly  
12 business cycle problem, and there are interrelationships  
13 in the sense that some of the characteristics of business  
14 cycles, and some of the problems that emerge are different  
15 in business cycles that are in one kind of growth  
16 context from those that arise in another kind of growth  
17 context.

18           Now, from the point of view of policy in  
19 general, and tax policy in particular, this description  
20 of the understanding of business cycles I think has  
21 this implication. It is, I think, impossible to forecast  
22 accurately and with a high degree of precision all of  
23 the business cycle and growth cycle kinds of experience  
24 that an economy is going to have to cope with. The  
25 record in forecasting in these things has not been  
26 terribly good.

27           Therefore I think that from the point of view  
28 of policy you can only build in some things that will  
29 work automatically, some things that are appropriate  
30 no matter what the circumstances that develop. To some



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1 extent you must adapt your system to your appreciation  
2 of the situation as it emerges, and I take it that an  
3 issue of policy is whether you have a tax system that  
4 can be adapted to changing circumstances. Do you have a  
5 tax system that permits an effective development of  
6 policies that can only be formulated as the appraisal  
7 of the situation develops?

8 I think these are the implications about the  
9 irregularity of the past experience and the impossibi-  
10 lity therefore of extremely accurate forecasting, or  
11 sufficiently accurate forecasting for the future.

12 COMMISSIONER GRANT: Yes. Well, when a situa-  
13 tion arises in which the government is forced to budget  
14 for a deficit, obviously that can't continue indefinitely.  
15 There would have to be a stop put to it. Those who  
16 subscribe to the cyclical theory would rely upon the  
17 tax system and the tax structure to bring it out. Now,  
18 it seems to me that we have not been in this field very  
19 long, in that we have had budgetary surpluses since the  
20 war until probably 1957, as you mentioned, with very  
21 few, if any, exceptions, and since 1957 we have  
22 budgeted deficits. So that if we are still working on  
23 the theory, I am just wondering whether those who sub-  
24 scribe to the theory draw any conclusions as to when it  
25 must cease, before we encounter a situation that is  
26 going to compel us to take drastic action?

27 PROFESSOR SLATER: Well, I think most  
28 economists would argue that the wolf is quite a long  
29 way from the door, rather than close to the door, in  
30 this connection. For the federal government there is





1 in a sense always an out that they can use in any short-  
2 run circumstance. They own and control a central bank,  
3 which no province does, which no municipality does, and  
4 which no corporation does. Therefore, in the technical  
5 sense of having a means to settle on the due date a  
6 particular issue, a government can have no problem.  
7 The problem, however, that may arise is the problem of  
8 a government being driven into an excessive creation of  
9 money. In a sense that is the outcome, with the cons-  
10 quences internally and externally that would arise from  
11 this. Now, I think the judgment of most of my profes-  
12 sional brethren would be that we are not close to having  
13 that sort of situation in Canada at the present time.  
14 There has been a perfectly enormous absorption of  
15 government securities by the public over the last six  
16 or seven years, without any great difficulty.

17 Now, I think that another aspect of the thing  
18 is that government deficits and accumulation of govern-  
19 ment debt may pose problems if they grow rather rapidly  
20 relative to the size of the total economy and the tax  
21 base, because in those circumstances more and more of  
22 the national income would have to be somehow drawn in  
23 through a taxation system in order to service this debt.  
24 You could have further difficulties arise which are not  
25 difficulties of a bank policy sort with respect to your  
26 debt at all, but they are difficulties that are  
27 attendant on governments having larger and larger debt  
28 service burdens relative to the income of the community.  
29 But problems of that sort could arise either from the  
30 debt side or from the assumption of additional



1 government programs of other sorts.

2 Now, for the first decade or so after the end  
3 of the war the Canadian story was of the burden of debt  
4 service of governments accounting for smaller and smaller  
5 and smaller fractions of our national product. I am not  
6 sure of the exact figures. I don't think we are --  
7 well, we have had deficits for a number of years -- I  
8 don't think we are even yet back to anything like the  
9 kind of burden of debt service that we had at the end  
10 of the war --

11 COMMISSIONER GRANT: Due to the increases in --

12 PROFESSOR SLATER: Due to the increases in  
13 national output. I don't want to mislead you by these  
14 kinds of comparisons, but I think that they do give some  
15 sort of a feeling for whether, as I put it, the wolf is  
16 close to the door or maybe somewhat farther away.

17 Now, I think this is all I have to say in  
18 answer to your question, Mr. Grant.

19 COMMISSIONER GRANT: Just one more thing,  
20 Professor Slater, if you don't mind.

21 Would you like to give your opinion as to  
22 whether or not the federal system of compiling a budget  
23 reflects the true state of the national economy?

24 PROFESSOR SLATER: Well, I <sup>don't</sup> think, Mr. Grant,  
25 that there is a single budgetary statement that could  
26 be satisfactory for all purposes. This is out of my  
27 general area, but as I understand it there are political  
28 and constitutional factors that bear on the handling of  
29 the budget in its present form in the federal government.  
30 That is that there shall be votes, proceedings, there is



1 the control over the money in that kind of budgetary  
2 sense, a sort of administrative, constitutional,  
3 political consideration, and the budget arrangement  
4 that you may want for that purpose may not be satisfac-  
5 tory for, let us say, appraisal of government debt  
6 operations for which you have to have something more  
7 akin to a cash budget. Neither of these may be satis-  
8 factory from the point of view of what you might call  
9 the immediate economic effects on the real elements of  
10 the economy.

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1 I think that what we have to have is a  
2 budget system that permits us to translate from the  
3 budget that is appropriate for one purpose to the  
4 budget and that is appropriate for another purpose.  
5 I doubt very much that there is a multi-purpose or  
6 single budgetary statement that may ever be satisfactory  
7 for all purposes.

8 COMMISSIONER GRANT: Thank you.

9 THE CHAIRMAN: Professor Slater, I would  
10 like to direct your attention to your section on  
11 incidence. You attach considerable importance  
12 to this matter, I would think, when you say:

13 " It has been easier to allocate taxation  
14 among persons than to allocate the 'benefit'  
15 of government expenditures and other  
16 activities."

17 Now, I hate to divert your staff of  
18 wills of the wisp and dissipate our resources on  
19 unobtainable ends. I am concerned about trying to  
20 pursue the matter of incident to such a thing as  
21 corporation tax; various people have, as I understand  
22 it, made attempts at this with conspicuous lack of  
23 success. There are, of course,  
24 important matters in this area in which you think we  
25 should endeavour to pursue incidence of taxes as they  
26 bear on different industries and possibly different  
27 geographical regions.

28 PROFESSOR SLATER: My discretion on  
29 incidence is discretion, to some extent, from a  
30 position of ignorance. Most studies are of incidence,





1 as I point out in that brief and as you are aware, what  
2 they mostly do is try to measure the tax budget by  
3 various income classes, people who fall into such and  
4 such a class of income and another class of income and  
5 so on. This is related to some ideas of what is an  
6 equitable tax system and, in fact, an equitable  
7 arrangement of our society.

8 I think it would be apt to describe our  
9 society in these respects as essentially one that you  
10 get rewards according to your talent and abilities  
11 and luck but that we modify this system in a degree  
12 by transferring mechanisms and so on and we try to take  
13 care of the worst burdens that are beyond an individual's  
14 own capacity to take care of.

15 The thing that bothers me is that so many  
16 things other than income have a bearing on ability to  
17 pay. This is already recognized in nearly every  
18 country. In the exemption structures in an income  
19 tax are in a sense to some extent an attempt to get  
20 closer to an ability to pay sort of notion. But, with  
21 respect to most other taxes in the community there  
22 is not a comparable sort of handling of the thing.  
23 I think it is a good idea for somebody some day, I won't  
24 press this too hard on you, to try to do what I call a  
25 meaningful incidence study to try to find out what  
26 the distribution of the tax rate is not only among income  
27 class but people within income classes according to  
28 occupation and formations in which they get their income  
29 and things of this sort.

30 Now, as to industries; it seems to me that



1 industries do not in an ultimate sense pay taxes,  
2 therefore, I do not think that it is right to think  
3 about let us say the incidence of a tax on an industry.  
4 I think it is appropriate, however, to assume where  
5 the tax system tends to encourage or discourage the  
6 development of a particular industry and to do this  
7 to an excessive degree or deficient degree by some sort  
8 of criteria, I think that is a fair question. But,  
9 the idea of incidence of taxes on an industry does not  
10 commend itself to me.

11 Now, originally, you see, in order to study  
12 the incidence of taxation on the residents of a region--  
13 I mean, how would it differ as between regions? Well,  
14 it would differ as the residents of one region differ  
15 in not only income class, forms of income and  
16 occupations, et cetera, as between these regions. I  
17 suspect that if you are going to study the incidence  
18 of taxation among regions you probably have to go below  
19 the income, dig deeper than the income class. I  
20 think also if you are going to do this and come up  
21 with a what you might call a meaningful attack on the  
22 incidence of which you might call government regionally,  
23 that you would have to try to match up or make a  
24 regional allocation of some of the incident items too  
25 and what their pattern is.

26 I think the traditional interest in regional  
27 incidence in Canada that was devised 30 years ago was  
28 the regional incidence of the tariff. I think the  
29 tariff is precluded from your general terms of  
30 reference but if you do anything on the tariff, the



1 impact of it, you might have some regional interests.

2 This raises another very important issue  
3 and that is that this is a country of diverse regions.  
4 A general policy pursued for what you might call the  
5 general or Canadian situation is almost bound to be  
6 a somewhat imperfect fit with respect to regions.  
7 This raises the fundamental question of whether this  
8 poorness of fit, let us say, with respect to a growth  
9 of policy, with respect to a stabilization policy,  
10 with respect to the equity aspect of things, whether  
11 a general Canadian policy, one policy for everybody  
12 is sufficient as a basis for running our arrangement.  
13 I would argue rather strongly for taking one Canadian  
14 policy as at least the base and having what you might  
15 call regional variations in policy built on top of this.  
16 This is a very big issue, I think, in the general area  
17 of the public policy and I think unavoidably in tax  
18 policy.

19 THE CHAIRMAN: You make reference to benefit  
20 of government expenditures. You deal to quite some  
21 extent in regard to incidence and suggest that is a  
22 matter of interest to us. Well, I would hope any  
23 study of taxation would not be thrown very far into ex-  
24 penditure. I recognize the relationship of one to the  
25 other but I do not think we can extend our inquiry  
26 to all things related to taxation.

27 PROFESSOR SLATER: I understand this, sir,  
28 and the thing that struck me and struck some of our  
29 people as they looked around at things is that in  
30 comparison with even what we had at the end of the war



1 we have developed a rather considerable structure of  
2 transfer payment to persons. These transfers take  
3 a large variety of forms, they account for a bigger  
4 share of the total government outlays since more  
5 gross income flows into the community than they used  
6 to. Many of these are things in which, in a sense,  
7 the government was taking with one hand and paying  
8 out with the other without really running the thing  
9 through the apparatus of a government or what you might  
10 call government programs that involve building things  
11 and so on aside from the administration aspect. We  
12 have, therefore, in the public economy taken on a  
13 considerable budgeting of these things. In a way  
14 one might like to think about the financing of these  
15 as a problem that might in some respects be dis-  
16 tinguishable from the problem of financing general  
17 government operations including defence and things  
18 of that sort and that many of these programs have a  
19 fairly significant equalization and transfer  
20 activity to them. My thought was this was a relevant  
21 background to formulating what you might call tax  
22 policy in the general framework of the tax policy of  
23 the government of Canada. It may be it will be  
24 sufficient to have a limited appraisal of this  
25 situation as background to your work rather than a  
26 careful study but I advance it as one of the fairly big  
27 issues in the government of Canada and it will probably  
28 be a bigger one with the imminence of the development  
29 of more medical care schemes and things of this sort.

30 THE CHAIRMAN: If I understand correctly, you





1 are drawing a distinction between taxes which are  
2 used to provide benefit to a taxpayer that he is able  
3 to recognize as a personal benefit as opposed to those  
4 which go to the general good of the country and are  
5 pretty far removed from the individual?

6 PROFESSOR SLATER: Yes.

7 THE CHAIRMAN: In the final chapter which you  
8 submitted you suggest a further matching up of revenue  
9 and expenditure. I must say, as a citizen, that it  
10 certainly has an appeal to know what the payments are  
11 for and to recognize what taxes do, and that he does get  
12 benefits in the way of pensions, old age security,  
13 protection against being unemployed which are of value  
14 to him.

15 PROFESSOR SLATER: Yes. I do have a  
16 completely clear and thought out view of this area.  
17 There have been a number of conjectural articles on  
18 the subject; for instance, two of the British party  
19 organizations have conjectured on the development of a  
20 social security budget as distinct from the other  
21 elements of the budget with a different set of budgetary  
22 rules, different sort of approach to the taxation to  
23 deal with this. It is largely conjectural on this point but  
24 it is, I think, symptomatic of the kind of thinking  
25 people are doing about this sort of problem.

26 THE CHAIRMAN: Thank you.

27 COMMISSIONER MILNE: Professor Slater, I  
28 would like to put forward a question that deals with  
29 your fourth topical reference, economic growth, There is  
30



1 a divergence of opinion existing in respect to the  
2 importance to the country of the extent of foreign  
3 ownership of Canadian industry. If I may use your own  
4 term, there is a disenchantment. Certainly expressions  
5 have been somewhat forcibly made that short-sightedness  
6 in this direction is exerting a heavy toll on Canada's  
7 economic strength and is impeding Canada's economic  
8 growth. Now, we would be interested in knowing if you  
9 consider that it is important to the Commission to  
10 examine these views. Possibly you would indicate  
11 avenues of an inquiry that could be pursued and which  
12 would be helpful in determining whether or not we  
13 progress due to physical capital.

14 PROFESSOR SLATER: The most useful thing I  
15 can do for you is to suggest one or two people who are  
16 much more expert in this field than I who I think would  
17 be prepared to give this Commission the benefit of  
18 their experience. In this connection I have particularly  
19 in mind Professor Safarian of the University of  
20 Saskatchewan who has a major study on foreign investment  
21 in Canada under way and has, I think, some views on this  
22 that are really worth something.

23 I can suggest two or three things. First, I  
24 can see that the Commission will probably wish to  
25 consider this problem in those days when we thought we  
26 had the world by the tail in Canada back about 1956  
27 or 1957. The issue then used to be put to us this  
28 way, that the choice for Canada was between a capital  
29 inflow and, to some extent, foreign ownership and  
30 foreign enterprises operating in Canada with high growth



1 or a slower growth and less use of foreign capital.  
2 This is the way the issue used to be put. If you were  
3 to examine some of the papers of the Royal Commission  
4 on Canada's Economic Prospects I think this is really  
5 the way the thing was sized up.

6 A third alternative was pointed out and I  
7 think this is a thing that bears on your Commission's  
8 work for any given use of foreign capital, rate of use  
9 of foreign capital, we could have passed through a  
10 slower growth according to the Canadian policies that  
11 are followed, the tax policy, and therefore because  
12 both the rate of capital inflow and the kind of saving  
13 and investing and so on that is done in Canada.

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1 So that if you consider it important to examine  
2 Canadian growth potentials and realization of those  
3 potentials for various assumed situations with respect  
4 to foreign investment, that is you are trying to lay  
5 out what are the alternatives -- and I think this is  
6 quite a relevant question for you to ask yourselves  
7 and for all of us to ask ourselves, we too -- then I  
8 think it is fair game for you to try to take this on.

9 The second thing I would say is that, so far as  
10 I can make out, the role of foreign investment as  
11 associated with ownership and control of activities  
12 and resources in Canada has been only one element in  
13 our growth and that there has been a great deal of our  
14 growth which has really taken place without reference  
15 to this. My impression is that the initial work in the  
16 grubstaking of the iron ore development in Labrador  
17 was Canadian, but then the whole thing became a huge  
18 enterprise and became not American but really an  
19 international company or organization. Similarly,  
20 in the development of the petroleum industry, this is  
21 the one where foreign ownership and control is very  
22 high, but I gather that this has been a pretty  
23 successful development from a Canadian point of view,  
24 too. But there have been lots of developments which  
25 are very good by any test which have nothing to do with  
26 foreign ownership and control. Our leading steel  
27 companies, some of our leading paper companies, these  
28 have developed not on the basis of foreign ownership  
29 and control at all.

30 One of the things that seems to be developing





1 nowadays is what you might call the international  
2 company, it is in a sense almost truly international.  
3 It may have its head office and its origins in a  
4 particular country, but so far as its operations are  
5 concerned, national considerations are not a dominating  
6 concern for them. We have a number of companies that  
7 have grown up out of Canadian roots and they are now  
8 international companies of this sort, and the fact that  
9 they are Canadian owned and controlled in some sense  
10 seems to cut comparatively little ice in the way they  
11 operate. I suspect that for many of the foreign  
12 companies that are operating in Canada, the fact that  
13 they are foreign owned and controlled really makes very  
14 little difference to the way they operate.

15 It seems to me that the thing that is important  
16 for us is to develop uses of resources and opportunities  
17 from a Canadian base which may be international, which  
18 may be domestic, but which are pretty good by any test.  
19 I think this is the thing that is really important to  
20 develop.

21 But, as I say, this is an area in which,  
22 unfortunately, I have very little expertness, and I  
23 think that I would suggest that the Commission establish  
24 contact with Professor Safarian. Professor Brecher at  
25 McGill University is also very knowledgeable on the  
26 subject, having done a great deal of work on it.

27 COMMISSIONER PERRY: I think, Professor Slater,  
28 more or less as a wind-up question we might ask, in view  
29 of what we have been asking other witnesses so far,  
30 whether you have in mind a list of sort of immutable



objectives for a tax system such as Adam Smith published once, whether your feeling is that there is quite a wide range of things, some of which may be more important under some circumstances and others under different circumstances, possibly at times even with some of these objectives in conflict. We must, of course, keep in mind some criteria.

Would you care to express your views as to whether there are some to which we give priority under any circumstances or whether this is a sort of flexible mix of objectives which changes with changing conditions?

PROFESSOR SLATER: I am afraid I do not have a closely worked out statement on these objectives. I tend to come at this question from the point of view of what are the objectives of public policy in general and the tax policy as a contributor within this framework; and I believe that it ought to be possible to come a good deal closer to full use of our potential capacity of people and productive plant than we have in recent years. I think it ought to be possible to do so without getting ourselves into either what you might call serious balance of payment difficulties or serious inflationary problems, or some mixture of the two.

I think that it ought also to be possible to have the individual and collective arrangements that are favourable to growth. High investment, I think, is a necessary condition of growth, effective allocation of capital funds, a strong, really strong educational system, a good communications system, all



1 of these things. I think it ought to be possible to  
2 achieve these along with stabilization objectives. I  
3 tend then to think of tax policy as a major and  
4 powerful contributor to these ends.

5 I am afraid I have comparatively little patience  
6 with the fellows who say that the primary -- about the  
7 only thing you should worry about in the tax system is  
8 raising revenue. This is all well and good, but, on  
9 the other hand, we have these other jobs to do, they are  
10 terribly important things to do. To fall short of  
11 realization of our output by ten per cent is a four  
12 billion dollars product down the drain. That is an  
13 awful lot of product we can do an awful lot of things  
14 with, and I think it ought to be possible through a tax  
15 system and policy to make a very considerable contribu-  
16 tion to these main objectives.

17 Just one last thing. As I said earlier in  
18 answer to one of the questions, I think that a tax  
19 system has to meet certain general criteria, equitable  
20 arrangements, efficient administration and all these  
21 sorts of things. A tax system can have some built-in  
22 stabilizing characteristics, but I think it is inherent  
23 in the use of tax policy that you have to change taxes  
24 from time to time and that you therefore ought to have  
25 a system that looks for the effective modification of  
26 rates and arrangements as situations emerge which we  
27 have to deal with. I don't think you can anticipate  
28 all of the things that you want in advance, but you can  
29 design a system which is more or less effective as a  
30 base from which to carry on day to day, month to month,



1 year to year tax policy.

2 I think this is fairly important. But one of my  
3 colleagues has suggested that high taxes and big  
4 governments and the system has really established a  
5 whole new set of moral rules for our society. I don't  
6 know how you do anything about this and whether it is a  
7 very serious matter or not, but when you get down to  
8 the level of boards of stewards of churches figuring  
9 out tax angles and ways and means of figuring out the  
10 Minister's salary, the tax angles are cutting pretty  
11 deep. That is one of the extreme cases that goes  
12 on.

13 I am sorry I don't have a very carefully worked  
14 out statement of principle.

15 THE CHAIRMAN: Thank you, Professor Slater. I  
16 don't know that we will press you any further with  
17 regard to the moral principle involved in taxation; I  
18 think you have made your point.

19 This has been for us a most interesting and very  
20 useful morning. Not only am I grateful to you but also  
21 to the sponsors of the Tax Study Group, who are the  
22 Canadian Tax Foundation and an anonymous group, I  
23 understand. This has been a very worthwhile service  
24 they are performing.

25 Incidentally, I improved my own knowledge on  
26 matters economic by reading your article entitled  
27 "Taxation Reforms in the United States and Some  
28 Implications for Canada". It is most timely and  
29 significant. Thank you.

30 Mr. Bennett, is there anything further





1 this morning?

2 THE SECRETARY: Nothing further this morning,  
3 sir. 2:15 this afternoon.

4 THE CHAIRMAN: We stand adjourned.

5 --- Adjourned until 2:15 p.m.

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Wednesday, April 17, 1963.

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---Upon resuming at 2:15 p.m.

THE SECRETARY: Mr. Chairman, ladies and gentlemen, we have with us this afternoon the officers of the Canadian Manufacturers' Association. Mr. Carl A. Pollock is President, and he will introduce to the Commission the officers who are with him.

I would like to at this time enter as Exhibit No. 6 into the record the submission of the Canadian Manufacturers' Association.

EXHIBIT NO. 6: Submission of the  
Canadian Manufacturers'  
Association.

SUBMISSION OF THE  
CANADIAN MANUFACTURERS' ASSOCIATION

APPEARANCES:

Carl A. Pollock,	- President, Canadian Manufacturers' Association; President, Dominion Electrohome Industries Ltd.
A.A. Cumming,	- Second Vice-President, Canadian Manufacturers' Association; President, Union Carbide Canada Limited.
J.A. Calder,	- Past President, Canadian Manufacturers' Association; Vice-President, Imperial Tobacco Co. of Canada, Ltd.
W.H. Flynn,	- Chairman Taxation Committee, Canadian Manufacturers' Association; Ontario General Manager, Canadian Industries Limited.



1 APPEARANCES: (cont'd.)

- 2 J.G. McDonald, - Chairman Committee on Sales  
3 and Excise Taxes, the  
4 Canadian Manufacturers'  
Association; The Hobart  
Manufacturing Company Ltd.
- 5 R.B. Taylor, - Vice-President & Treasurer,  
6 The Steel Co. of Canada, Ltd.
- 7 J.Graeme Watson, - President, E. & S. Currie  
8 Limited.
- 9 S.E. Ewens, - Imperial Oil Limited.
- 10 J.C. Whitelaw, - Executive Vice-President &  
11 General Manager, Canadian  
12 Manufacturers' Association.
- 13 R. Lang, - Manager, Tariff Department,  
14 Canadian Manufacturers'  
Association.
- 15 H.S. Shurtleff, - Legislation Department,  
16 Canadian Manufacturers'  
Association.
- 17 A.E. Jacques, - Canadian Manufacturers'  
18 Association, Ottawa.
- 19 H.D. Potter, - Canadian Manufacturers'  
20 Association, Toronto.

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ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

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1 MR. POLLOCK: Mr. Chairman and Members of the  
2 Royal Commission on Taxation, on behalf of the Canadian  
3 Manufacturers' Association our delegation appreciates  
4 the opportunity of being here, and we would like to say  
5 how pleased we are to have the pleasure of making a  
6 submission to you covering the study and research which  
7 you are making into taxation.

8 The Association is pleased that a Royal  
9 Commission has been appointed to study and make recom-  
10 mendations on Canadian taxation. A study and investiga-  
11 tion such as you will be carrying out has never before  
12 been made in Canada, and in our opinion this important  
13 task has been entrusted to capable and qualified hands.  
14 We feel that your studies and recommendations are both  
15 of great moment, and of tremendous proportions. The  
16 recommendations will constitute a landmark in the  
17 history of Canadian taxation. They should give rise to  
18 many beneficial changes in taxation laws and practices,  
19 thereby contributing much to the growth of Canadian  
20 industries and the prosperity and development of the  
21 Canadian economy.

22 Your Commission has asked us to appear before it  
23 on two occasions. Today is our first appearance, and  
24 we have been asked not to present our formal recommenda-  
25 tions on taxation, but to direct our attention to the  
26 activities of the Commission itself. Accordingly, in  
27 our representations which you have in your hands we  
28 have cited a number of matters which we feel in the  
29 interest of industry and the national economy should  
30 be investigated. We don't, however, wish you to infer





1 that when we suggest a topic for study we are thereby  
2 advocating any particular change in taxation. Generally  
3 speaking, we are bringing to your attention matters of  
4 concern or interest to manufacturers, which require  
5 study in order to bring to light advantages and dis-  
6 advantages, and to reveal implications which may not be  
7 at first apparent.

8 Our detailed recommendations on taxation will be  
9 presented in our formal submission later this year.

10 While we have already discussed and given some considera-  
11 tion to many of the matters to be included in this  
12 second submission, we have not as yet formulated our  
13 recommendations on needed tax changes. We have, however,  
14 given much attention to the task of your Commission,  
15 and are very happy to discuss your program of study and  
16 research with you today.

17 Now it is my pleasure at this moment to introduce  
18 to you the members of our delegation.

19 (Introduces members of delegation as listed in  
20 appearances.)

21 Mr. Chairman, with your permission I would like  
22 to now call on Mr. W. H. Flynn, who is as I said the  
23 Chairman of our Taxation Committee, and he will review  
24 some of the highlights of our submission.

25 We will be glad to answer your questions, and  
26 Mr. Flynn will act as the co-ordinator of our delega-  
27 tion.

28 Thank you, Mr. Chairman.  
29  
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1 THE CHAIRMAN: Thank you very much, Mr. Pollock.

2 Before Mr. Flynn starts I would like to greet  
3 you and say how pleased we are that you are with us.  
4 This small Commission is a little overwhelmed, and I am  
5 sorry the room is a little overcrowded even, but not  
6 only are you here in quantity, but the quality of what  
7 you have put before us is extremely high. I  
8 don't feel sure that I wouldn't feel a little more at  
9 home if I were down there, rather than being up here.  
10 I am certainly not used to this spot as yet.

11 We are at the present time merely experimenting.  
12 The three sessions that we have held so far have been  
13 conducted quite informally, and we are anxious to con-  
14 tinue in the informal way, but at the outset I indicated  
15 that we were supported by Mr. Stewart, our Legal Adviser,  
16 who would serve as Counsel as and when we might ask him  
17 to do so. We thought that your submission to us was of  
18 such weight and significance that it would be very  
19 useful to exercise Mr. Stewart's talents at this time,  
20 and to try him out. So we have got him into gear, and  
21 if you don't object, and I am sure you won't, we are  
22 going to ask Mr. Stewart to lead our questions, which  
23 does not mean for one second that that in any way keeps  
24 the rest of us from <sup>not</sup> joining in. It will be a full  
25 chorus.

26 Mr. Flynn, do you wish to make a statement?

27 MR. FLYNN: Yes, thank you, Mr. Chairman.

28 Mr. Chairman, inasmuch as our submission has been in  
29 your hands since late in February, I feel it would be  
30 wasting the Commission's time to review in any detail



1 its contents.

2           However, I would like to emphasize that in  
3 accordance with the directive we received from you in  
4 inviting us to make a preliminary submission, we have  
5 confined ourselves to raising issues rather than trying  
6 to settle them, or even to making any recommendations  
7 thereon.

8           Generally we have suggested that the entire  
9 tax structure should be examined to determine its effect  
10 on the operation of the national economy, on the conduct  
11 of business and the organization of industry. This is  
12 followed by more detailed suggestions relating to the  
13 distribution of the burden of taxes among taxpayers,  
14 the effect of the tax system on employment, living  
15 standards and so forth, the growth of anomalies or  
16 inequities that have grown up over the years and the  
17 effects of income, sales and excise taxes and estate  
18 duties on income and investment flows. We also feel  
19 that it would be desirable to determine what changes if  
20 any should be made in the tax laws to encourage Canadian  
21 ownership of Canadian industry without discouraging  
22 the flow of investment funds into Canada. Income taxes  
23 and sales taxes, we have suggested, should be examined  
24 in considerably more detail, as well as the estate  
25 tax act.

26           With that brief outline, Mr. Chairman, the  
27 members of this delegation will be glad to try to  
28 answer your questions as best we can, bearing in  
29 mind that no definite views or recommendations have as  
30 yet been formulated by our Association.



1 THE CHAIRMAN: Thank you very much, Mr. Flynn.  
2 Questions will be directed solely to a better understand-  
3 ing of what you have already put forth. We are not  
4 seeking at this time to arrive at conclusions leading to  
5 our report. Where you have made statements we may ask  
6 you questions about the statements for our better under-  
7 standing, as I said, but it will be so restricted.

8 Mr. Stewart, would you care to proceed?

9 MR. STEWART: Mr. Chairman, I wonder if it would  
10 be best for me to direct these questions in the first  
11 instance to Mr. Flynn, or to some other person than Mr.  
12 Flynn if you wish to suggest someone else?

13 MR. FLYNN: No, I think not.

14 MR. STEWART: Well, gentlemen, all Canadians  
15 of course know about the Canadian Manufacturers'  
16 Association, and in the first couple of pages of this  
17 submission you have made you have given us a good deal  
18 of information about the membership of the Association.  
19 I wonder, however, if for our assistance you could answer  
20 a preliminary question, which is this.

21 When you are determining eligibility for member-  
22 ship in the Canadian Manufacturers' Association, how do  
23 you define manufacturing?

24 MR. WHITELOW: Mr. Stewart, the qualifications  
25 for membership in the C.M.A. are based on the fact that  
26 there are a minimum of five people employed in the  
27 processing end of the applicant's business, and engaged  
28 in manufacturing or further processing. In other words,  
29 our membership is exclusively confined to the manufac-  
30 turers of Canada.





1 MR. STEWART: Now, gentlemen, I would like to  
2 deal with a number of points that you make in this sub-  
3 mission. I think perhaps the most convenient method is  
4 to start at the beginning and deal with the submission  
5 more or less in the order in which you have dealt with  
6 these points.

7 I would first like to refer to paragraph 8,  
8 which appears on page 3. It is clear from that page,  
9 and from other portions of your submission, that the  
10 Association is concerned about the high levels of  
11 taxation and government expenditures in this country.  
12 In paragraph 8 you suggest that in the Commission's terms  
13 of reference there is an important and serious limitation  
14 on its powers because of the fact that its right to make  
15 recommendations with regard to improvements in tax laws  
16 and the administration of tax laws is required, the  
17 recommendations are required, to be consistent with the  
18 maintenance of a sufficient flow of revenue.

19 Now, I would just like to raise the question  
20 with you whether this is in fact a limitation, or a  
21 serious limitation, on the powers of this Commission.  
22 Does that not simply mean that the Commission, when it  
23 is dealing with its terms of reference, with the problem  
24 it faces, should be realistic in the formulation of its  
25 recommendations, having regard to the probable level of  
26 government expenditures?

27 MR. FLYNN: Well, Mr. Stewart, there I think  
28 the real point we are trying to make is that the  
29 incentive to growth of the national product by taxes  
30 is constantly creeping up, and unless something is done



1 to erase that, no matter what you do with the  
2 rearrangement of the tax structure it is not going to  
3 help the regular progress there.

4 MR. TAYLOR: Taxation to me, and I speak  
5 personally, is just a reflection of the way of a nation  
6 channelled through government. We are concerned about  
7 these collective expenditures, not only as a mass, as  
8 a whole, but also by nature. What is the nature of the  
9 things which should be channelled that way? I think  
10 that is what we were directing our attention to, and  
11 feeling somewhat regretful that the Commission is not  
12 allowed, although I can see reasons why you can't do  
13 everything, to inquire into the fact of which taxation  
14 is the mirror.

15 MR. STEWART: Yes, I see. So that your basic  
16 point then is that you would like these expenditures to  
17 be reduced. You think they are too high, and I think  
18 you will appreciate that as far as we are concerned we  
19 would be reluctant to admit that there was any limita-  
20 tion on our terms of reference in this regard.

21 Now, you go on in paragraph 9 to suggest that  
22 the Commission should give careful and separate considera-  
23 tion to each of the particular taxes which make up the  
24 Canadian tax system. Then you mention certain of those  
25 taxes in particular.

26 May I take it, Mr. Flynn, that there was no  
27 thought there that we should not consider alternative  
28 taxes, in addition to the specific ones we have at the  
29 present time in this country?

30 MR. FLYNN: No, I think that is --



1 MR. STEWART: I assume that must be so, because  
2 later on in the brief, in paragraph 63, you do suggest  
3 that we should have a look at some of the European  
4 taxes, commodity taxes, and so on?

5 MR. FLYNN: That is correct. We don't feel it  
6 should be confined to the present structure that we have  
7 grown up with.

8 MR. STEWART: And so that you will see we are  
9 aware of this, perhaps I could suggest to you that if we  
10 are considering the tax system as a whole, and alterna-  
11 tive taxes, there seems something to be said for the  
12 proposition that we must consider quite a wide variety  
13 of subjects, which are not specifically referred to in  
14 your brief. We must consider perhaps the relative  
15 merits of particular taxes, the question if you like of  
16 the taxation mix that we have in the country at the  
17 present time, and what changes in the taxation mix might  
18 be advisable. We presumably must give some thought to  
19 what the objectives of a tax system for this country  
20 should be, and perhaps we must consider the relative  
21 extents to which fiscal policy, monetary policy, and  
22 government expenditures can be utilized to promote  
23 stability and growth, and national or governmental  
24 objectives generally.

25 Now, would you agree that these are all matters  
26 which we are perhaps led to consider under our terms of  
27 reference?

28 MR. FLYNN: I would think your case is  
29 admirably stated to the job you have ahead of you.

30



1 MR. STEWART: Might I ask one specific  
2 question in that regard? You refer at one or two points  
3 in the brief to the question of social security charges.  
4 Would you consider that the method of financing  
5 social security payments should be treated as part of  
6 the problem with which this Commission has to deal?

7 MR. FLYNN: I think there, Mr. Stewart, some  
8 of the measures, old age security, and so on, definitely  
9 are part of that. Where you have so-called  
10 contributory measures, that would not come within the  
11 terms of your reference, and possibly the proposed  
12 portable pension plan in Ontario would not be regarded  
13 as part of the taxation structure.

14 Mr. McDonald, would you care to elaborate on  
15 that at all?

16 MR. McDONALD: Mr. Stewart, I might just add  
17 briefly that the members of the delegation did consider  
18 this question and attempted to come to a reasonable  
19 definition, and for this purpose I might say that we  
20 consider a tax which involves transfer payment elements  
21 to be a tax within the terms of reference; whereas any  
22 impost or level, compulsorily imposed by statute, which  
23 is based upon a contributory foundation, would not be  
24 so described. The old age security tax we think is  
25 obviously a tax which involves the element of transfer  
26 payment; family allowances are financed from the general  
27 revenue through taxes. One might say that the un-  
28 employment insurance fund has an element of taxation to  
29 it, and we would distinguish that type of expenditure,  
30 that type of direction of public revenues from





BB-2

1 contributory plans where members of the public in effect  
2 are paying for the services they receive.

3 THE CHAIRMAN: Would your position be that  
4 it is compulsory?

5 MR. McDONALD: Yes. I presume that the  
6 Commission is not concerned in purely voluntary  
7 provisions as social benefits and you will deal with  
8 social benefits which are provided by social sanction.  
9 We do not believe that the contributions made under  
10 that statute are taxes.

11 MR. FLYNN: I don't know about this, but  
12 it seems to me that you would need to consider within  
13 the realm of taxes anything where choice is taken away  
14 from the individual, anything that involves compulsion,  
15 where he cannot choose; it is a collective activity.  
16 I don't know whether that should be properly within the  
17 realm of taxes or not. It certainly does not leave him  
18 the freedom of choice.

19 THE CHAIRMAN: That would be my feeling,  
20 but I don't think you and Mr. McDonald are together on  
21 that point.

22 MR. McDONALD: I think we would agree to  
23 disagree on that.

24 MR. STEWART: When you are using the term  
25 "contributory", are you thinking of it as between  
26 employee and employer or involving the government?

27 MR. McDONALD: What I have in mind is a  
28 distinction between services which are financed out of  
29 the general revenue of the nation and services which  
30 are financed out of contributions made by the persons



BB-3 1 who are to benefit from the contributions.

2 MR. STEWART: You are thinking of those which  
3 are financed solely by employee or citizen contributions?

4 MR. McDONALD: Social benefits which are  
5 not state supported.

6 MR. STEWART: Now, on page 4 of the sub-  
7 mission, paragraph 10, we find a section, or the  
8 beginning of a section, which has to do with the effect  
9 of taxation upon the operation of the national economy,  
10 and it is quite clear from that section, from the  
11 submission as a whole, that you feel that a great deal  
12 of importance should be placed on the facilitating of  
13 national economic growth. In paragraph 10 you say,  
14 for example:

15 " It is of greatest importance to every  
16 Canadian that taxation should not impede the  
17 growth and operation of the national economy."

18 I realize that this is perhaps a difficult  
19 matter, but are you suggesting here and in the submission  
20 as a whole that economic growth is of paramount  
21 importance as far as social, general social and economic  
22 objectives are concerned?

23 MR. FLYNN: Is that the question?

24 MR. STEWART: That is the question.

25 MR. FLYNN: I would say definitely yes, that  
26 economic growth and the provision of jobs is one of  
27 the -- well, is the most important of the problems ahead  
28 of us. To the extent that taxation inhibits economic  
29 growth, we should do something about it.

30 I have made a specific point here, and that is



BB-4

1 that the economic growth depends on investment and  
2 investment depends on the return you can get on such  
3 investment; and taxes are the straw that breaks the  
4 camel's back, among many other factors -- I don't  
5 say it is the only factor, but it is very often the  
6 marginal factor which determines whether investment  
7 will be made or not. There is the stability of prices  
8 and level of employment, and so forth, but taxes  
9 definitely are a factor in there. They may not be,  
10 I don't think they can be the predominant thing.

11 MR. TAYLOR: To me, economic growth is the  
12 postponement of consumption in order to have greater  
13 consumption later, and to the extent that taxation  
14 impedes that from time to time, then it may impede the  
15 economic growth. It is very nebulous, and I am no  
16 economist.

17 THE CHAIRMAN: Well, when Mr. Stewart put the  
18 question to you as to the important factor, I thought  
19 of economic stability, recognizing that stable economy  
20 is as important as economic growth.

21 MR. CALDER: One thing we have to watch is  
22 our measurement of economic growth, and sometimes  
23 it is really a reflection of inflation and not of  
24 economic growth. I think if you use it as true  
25 economic growth, it overcomes a lot of problems in your  
26 mind.

27 MR. STEWART: I take it economic growth depends  
28 on a great many factors. You are suggesting that this  
29 Commission consider in what ways taxation can impede  
30 it or may impede it. No doubt you will be including





BB-5  
1 observations on that particular point in the brief  
2 which was put to the Commission. I take it that the  
3 point which you specifically raise in this regard in  
4 your brief we should treat as ~~one~~ thing, not as an  
5 exclusive indication of what you feel the effect of  
6 taxation on growth may be.

7 Now, you have made it quite plain that you  
8 think that fiscal policy can have a detrimental effect  
9 on growth. Do you consider that if it is properly  
10 used it can stimulate, and I have in mind stimulation  
11 of growth not only generally but in particular  
12 industries and in particular regions of the country?  
13 Is this another matter on which you will be addressing  
14 yourselves to the Commission at a later stage?

15 MR. FLYNN: Well, Mr. Stewart, in that  
16 particular area I think the Royal Commission on  
17 Banking has delved exclusively into that, and the results  
18 of their study will help to answer the questions you  
19 are raising. I don't feel we are competent to get  
20 into that field in the light of what went on in the  
21 Royal Commission on Banking.

22 MR. STEWART: Well, I suppose something will  
23 turn here ~~on whether~~ when your final submission is made be-  
24 fore the final report of the Royal Commission on Banking.

25 MR. FLYNN: That may be so, sir.

26 MR. STEWART: At the bottom of page 4 you  
27 are dealing with the effect of taxation on the price  
28 structure, with particular reference to exports, and  
29 you raise a couple of questions. The first is this:

30





BB-6

1 " Where high costs tend to price

2 Canadian goods out of the market, how much of  
3 the cost is due to taxation?"

4 And you indicate it is also important to know  
5 whether our taxes encourage or discourage the improve-  
6 ment of design and quality in Canadian goods and the  
7 manufacture of new products.

8 Now, could I ask this, at the present time  
9 you have any evidence on these points, and I ask  
10 at the same time whether you would expect to be providing  
11 evidence on those points in your ultimate submission?

12 MR. FLYNN: Well, I think, Mr. Stewart, that  
13 there are really two factors there. You are asking  
14 are taxes passed on in prices to the consumers.  
15 Mr. McDonald, would you like to comment on that, the  
16 first part of it?

17 MR. McDONALD: If I could perhaps clarify  
18 the question, Mr. Stewart, in paragraph 11 in the brief  
19 the question is asked:

20 " Where high costs tend to price Canadian  
21 goods out of the market, how much of the cost  
22 is due to taxation?"

23 Now, at a later point in the brief itself  
24 reference is made to the supposed incidence of  
25 Corporation Income Tax Act, and I would like to defer  
26 any comment until that point is reached.

27 On this particular question in paragraph 11,  
28 I may say that this is an attempt to state what I might  
29 say in other words in reference to Mr. Flynn's comments  
30 on investment. If the owner of the business is a Canadian



1 or a foreigner, then the choice tends to go elsewhere  
2 than Canada in terms of the manufacturing plant  
3 capacity, and to this extent taxes in Canada can be  
4 a cost when compared with alternative choices to those  
5 considering the location of the manufacturing plant..

6 MR. STEWART: And is what you have just  
7 said to be related to the last sentence of paragraph  
8 11:

9 " It is also important to know whether our taxes  
10 encourage or discourage the improvement of  
11 design and quality in Canadian goods and the  
12 manufacture of new products."

13 MR. McDONALD: No, that is actually a  
14 separate thought; and I presume that the former govern-  
15 ment may have had some evidence that the scientific  
16 expenditures amendment may have had some result.  
17 Everything I have heard has indicated that this is the  
18 case.

19 This is a subject which no doubt the  
20 Commission will wish to investigate.

21 THE CHAIRMAN: Before you go on, Mr. Stewart,  
22 I am not sure that that answer of Mr. McDonald entirely  
23 satisfies your question as to whether our taxes en-  
24 courage or discourage the improvement of design and  
25 quality in Canadian goods and the manufacture of new  
26 products. He indicated that the amendment as to  
27 research expenditures has probably been successful,  
28 but does that end the matter, as to what might be the  
29 tax encouragement or discouragement?

30 MR. McDONALD: There again, as to the



1 definition of scientific research in the new  
2 regulations, to the extent that tax reliefs compare  
3 favourably with those in the United States and elsewhere,  
4 research expenditures have tended to be expanded, in  
5 Canadian affiliated corporations. The definition  
6 of research expenditure has been a matter of some  
7 comment in recent weeks. It is a fairly fresh  
8 regulation. I have not seen anything in the published  
9 Journals, but I understand it is intended to be  
10 strict; and to the extent that the administration of the  
11 scientific research expenditure allowance tends to be  
12 strict, that such application defeats the  
13 purpose of the legislation, and I would ask the  
14 Commission to apply its mind to the spirit in which  
15 that legislation is to be applied.

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25 --



1 MR. STEWART: Mr. Flynn, in paragraph 12 there  
2 is a sentence which I would like to read. It is the  
3 second sentence in the paragraph, and I am not sure  
4 that I understand the point which you make. It reads  
5 this way: "For example, it is important to know  
6 whether by reason of taxation the relationship between  
7 savings and consumption is distorted by undue encourage-  
8 ment of consumption with the result that there is  
9 inadequate capital formation".

10 Now, is the point which is made there that,  
11 or the suggestion which is made there, that income tax  
12 levels at the moment are unduly high, and that the level  
13 of consumption taxes may be low, and that if income  
14 taxes are reduced the capital formation would increase?

15 MR. FLYNN: That is a field we feel that the  
16 Commission should explore, in relation to, for instance,  
17 the proportion of income to the consumption tax in other  
18 countries, and we feel that it would be a fruitful  
19 source of inquiry for the Commission to determine just  
20 how we stand in Canada. Are we too high in proportion  
21 on income, and consequently too low on consumption?  
22 If you increase the consumption tax is it going to  
23 limit production, or will it push it the other way?  
24 We don't know the answer to that, and we suggest that  
25 it should be looked into.

26 MR. STEWART: Well, there is another underlying  
27 question, of course, and I wonder if you would have any  
28 comments on this? How do you suggest that the Commission  
29 might ascertain, first of all, whether the capital  
30 formation in this country is affected, and secondly,





1 whether or not capital formation would be increased if  
2 income taxes were lowered?

3 MR. FLYNN: You are asking --

4 MR. STEWART: If you have any suggestions as to  
5 how we should go about these inquiries? Let me put this  
6 to you, that perhaps an Association such as yours is in  
7 a position to make **some** inquiries of that sort which  
8 would assist the Commission?

9 MR. FLYNN: I am not sure that we would be in  
10 any better position to produce any results, or certainly  
11 no better than the Commission itself could through the  
12 statistical and research facilities of the government,  
13 but, Mr. Ewens, have you any thoughts on that?

14 MR. EWENS: No, not too many, but I suppose  
15 one area of research on this point would be an examina-  
16 tion of other countries, what the success, or lack of  
17 success has been there.

18 MR. STEWART: Yes, but on this question of the  
19 effect of a reduction in income tax on capital forma-  
20 tion, this presumably depends very much on what the  
21 individual businessman would be likely to do in the  
22 future?

23 MR. FLYNN: Have you any thoughts, Mr. Calder,  
24 or Mr. Watson, on this one?

25 MR. WATSON: Mr. Stewart, I should think that  
26 it is worth while studying, just to find out just what  
27 truth there is in the assumption that capital formation  
28 is one of the essentials in Canada. We seem to be  
29 depending a great deal on foreign capital, and the less  
30 we have to import of foreign capital, naturally something



1 else is rectified there, but in the meantime there would  
2 be more capital at hand usually. How this could ever be  
3 statistically measured is something else, but I think  
4 this is a logical sequence of events which with lesser  
5 taxation there is more saving, more capital formation,  
6 and more incentive, and more means for industry to  
7 expand. This is a sort of theoretical chain of cause  
8 and effect, and how to go about measuring it statistically  
9 is quite something else. Possibly bankers and invest-  
10 ment dealers should shed some light on that particular  
11 chain of sequence, and see if, (a) it is valid, and  
12 (b) of what it consists.

13 THE CHAIRMAN: May I ask one question at this  
14 point? I have been for sometime a little puzzled by  
15 the documentation, or justification for additional  
16 capital expenditure in Canada. When the States proposed  
17 to modify taxation in such a way as to encourage  
18 additional investment, they did so because they con-  
19 sidered that their plant was in some cases run down  
20 and obsolescent. Do we have a similar situation in  
21 this country? There is no merit in putting up more  
22 plant and machinery just to have more plant and  
23 machinery. It would have to increase the efficiency  
24 of our production.

25 I don't know if there is a case for it or not.  
26 It may be that there is an excellent case. I don't  
27 know. Do you know if there is such evidence, or do you  
28 know where we can seek it?

29 MR. CUMMING: Mr. Chairman and Mr. Stewart, I  
30 think we are bound to be a little bit in the realm of



1 theory here, and I can only speak as a manufacturer,  
2 but it would seem quite obvious to me in a good many  
3 cases were capital more readily available, or capital  
4 available at a lower cost, it would undoubtedly cause  
5 an appreciable expansion of production facilities in  
6 Canada. You can't just stop there, because in order  
7 to justify and encourage the investment in that field  
8 you also have to be able to project to the future, and  
9 visualize the incentive you would have profitwise to  
10 do that, and how competitive you would be in the various  
11 field, either internally or externally, in the country.  
12 It is my feeling that I think that a lower tax load on  
13 industry in Canada, by and large, would stimulate  
14 development of facilities, but I can't prove it.

15 THE CHAIRMAN: The purpose of developing  
16 facilities is to have more efficient production,  
17 because you are not talking about increased consumption.  
18 It must be, therefore, to produce our goods more  
19 efficiently and economically. Is that correct?

20 MR. CUMMING: That is correct. So, by the  
21 same token you can expand your markets, not only  
22 internally, within the country, but also externally.

23 COMMISSIONER GRANT: It seems to me that  
24 about five years ago, when the economy was riding high,  
25 shall we say, that there seemed to be quite a spate of  
26 new issues coming out by way of equity financing, and  
27 it does not appear that there has been any great amount  
28 of equity financing undertaken by some of the major  
29 industrial concerns in Canada in recent years.

30 I wonder if the Manufacturers' Association would



1 direct their thinking to the reason why there has not  
2 been any great amount of equity financing in recent years,  
3 if that is the case, not only in connection with equity  
4 financing, but also in connection with corporate bond  
5 issues. There has not been, it seems to me, any great  
6 amount. Is the water not warm? Is the climate not  
7 acceptable? When equity financing is attempted, very  
8 often it seems that it has to be accompanied by a so-  
9 called gimmick. Is that desirable from the point of  
10 view of expansion?

11 Those are things which I think might be of  
12 help to us if some consideration could be given to them  
13 when the final submission is made.

14 MR. TAYLOR: Mr. Chairman, if I might say a word.  
15 There has been, of course, financing by corporations of  
16 expansion, by equity if you like, through retained  
17 earnings, which is essentially the same thing as issuing  
18 more stock, except that you do it without the tax that  
19 you have to pay to distribute the dividends, and without  
20 the necessity of having to go around asking everyone to  
21 give back their money to you. It is more efficient in  
22 one sense, I think. Of course, the well known profit  
23 squeeze and the fear of lower profits in the future,  
24 that is the dampening down of expectations, have done  
25 a lot in the last few years to restrict the exuberant  
26 growth that there was in the fifties. Of course, there  
27 are many other reasons. We are coming out of the war-  
28 time period, and so on.

29 COMMISSIONER GRANT: You are referring to  
30 existing industries, aren't you? Where existing





1 industries are doing their financing?

2 MR. TAYLOR: Of course, yes.

3 COMMISSIONER GRANT: But not to new industry?

4 MR. TAYLOR: Yes, although the second part of  
5 my remarks applies to new industries.

6 THE CHAIRMAN: Are you suggesting that price  
7 openings ratios haven't shortened considerably?

8 MR. TAYLOR: Yes.

9 THE CHAIRMAN: They are still satisfactory,  
10 are they not?

11 MR. TAYLOR: Well, they have gone up. Now  
12 you have to accept thirty to one. They were twenty to  
13 one before. I remember times when the stock of the  
14 company I represent was eight to one, seven to one,  
15 ten to one. Now it is considerably higher.

16 MR. STEWART: Well, gentlemen, if we could  
17 come back to paragraph 12 of the brief, ~~there~~ you refer  
18 to the fact that in some of the European countries the  
19 evidence is that a larger proportion of total tax  
20 revenues is derived from consumption taxes than is  
21 the case in this country.

22 I put this to you. If these consumption taxes  
23 in some of these foreign countries are considerably  
24 higher than they are here, and if they do not apply to  
25 export sales, is there any evidence that you are aware  
26 of that this has increased the difficulties of Canadian  
27 secondary industry in competing with foreign products  
28 in the domestic, Canadian market?

29 MR. McDONALD: This is a most difficult ques-  
30 tion to answer, Mr. Stewart. I will do my best.



1 Countries such as Denmark utilize special reliefs  
2 which produce the effect of a lower corporate tax on  
3 profits, and at least one other country uses a different  
4 technique, with which you are familiar of course. In  
5 Sweden an equalization reserve deduction is permitted,  
6 which again has the effect of giving a lower corporate  
7 income tax. The effect of these deductions enables,  
8 to use the example with which we are interested here,  
9 a manufacturer to finance expansion more rapidly out of  
10 retained earnings. He pays less taxes as he goes along,  
11 and he has more cash with which to expand, increase his  
12 industry holdings, and expand his plant if he is a  
13 successful producer. The country in which that plant  
14 operates, however, has to have sufficient revenues to  
15 finance its governmental purposes, and because of the  
16 reduced taxes in the direct tax area there is a higher  
17 proportion of indirect taxation in the country. Now,  
18 the statement made in the brief is that it is important  
19 to know whether this emphasis on consumption taxes has  
20 contributed to the economic advances made in recent  
21 years in many European countries. It is not intended to  
22 suggest by this statement that the imposition of high  
23 indirect taxation contributes to economic advance.  
24 Rather it is intended to say that reduced direct taxa-  
25 tion for selected areas, such as manufacturing itself,  
26 contributes to economic advance. If this alteration  
27 of the proportion produces a relatively higher burden  
28 of indirect taxation, then the latter would be the  
29 price paid for the economic expansion.

30 MR. STEWART: Yes. Well, Mr. McDonald, I was



1 merely asking a supplemental question, I think, arising  
2 out of paragraph 12.

3 My question is, when you look at these European  
4 countries and their relatively high rates of consumption  
5 tax, if those taxes are remitted to exporters does it  
6 make it easier for these exporters to compete in a market  
7 such as the Canadian market?

8 MR. McDONALD: Yes, I think the answer is yes.  
9 In Canada Canadian exporters, under section 41, are  
10 helped to the extent that the tax in foreign countries  
11 is heavily on the side of indirect taxes. The emphasis  
12 on export sales would tend to favour the Canadian  
13 manufacturer when compared to this.

14 MR. STEWART: Now, on page 6, under paragraph  
15 14, which has to do with the desirability of ensuring  
16 that foreign investors will invest in Canada, and a  
17 somewhat similar point is made in paragraph 42, which  
18 appears on page 17 -- perhaps I could attempt to deal  
19 with both of those paragraphs together.

20 Can you suggest what tax features, what  
21 features there are now in our Canadian tax system  
22 which are material from the point of view of attracting  
23 foreign investment? Are there factors which in your  
24 opinion are attractive, and factors which on the other  
25 hand are unattractive, or which might repel possible  
26 foreign investors?

27 MR. EWENS: In a very limited area, that is  
28 the taxation associated with the industry that I am  
29 connected with, United States taxation does have a  
30 very direct impact on the desires of United States



1 corporations to do business in Canada, or any other  
2 country where the national resources seem to provide  
3 the opportunities that the United States corporations  
4 are interested in. I think there is no question that  
5 in certain areas United States taxpayers have in any  
6 particular industry benefits over their Canadian counter-  
7 parts.

8 THE CHAIRMAN: For the record we might indicate  
9 that you are interested in the oil industry, Mr. Ewens?

10 MR. EWENS: Right.

11 MR. STEWART: Now, you only speak there from  
12 the point of view of American taxation. If we wish to  
13 introduce a tax plan here in Canada which is attractive  
14 to the foreign investor, can you suggest particular  
15 types of tax provisions which should be kept in mind?

16 MR. EWENS: I think we are suggesting that  
17 perhaps the Canadian tax system should be equal  
18 competitively with that of the United States, or other  
19 countries where the United States taxpayers are competing  
20 with us in Canada.

21 MR. STEWART: Are you considering here for  
22 instance the American corporate taxpayer which has a  
23 direct investment in Canada and carries on business  
24 here?

25 MR. EWENS: Yes.

26 MR. STEWART: And are you concerned now with  
27 the level of the tax on corporate income? Is your point  
28 that the Canadian level should not exceed the American  
29 level?

30 MR. EWENS: In effect that is right, yes.





1 The American investor may have preferential tax treatment  
2 that in effect gives him a lower tax rate than his  
3 Canadian competitor.

4 THE CHAIRMAN: One of the things you are think-  
5 ing of is the right to choose between percentage and  
6 cost depletion, I assume?

7 MR. EWENS: This is one of the things, yes.

8 MR. STEWART: I notice, for example, that in  
9 paragraph 43 of the brief you say, and I am looking at  
10 the top of page 18, " --- withholding taxes should  
11 under no circumstances impose a penalty by being fixed  
12 at a level above the foreign recovery available to the  
13 foreign investor".

14 Now, would that have that effect, that if we  
15 were to adopt that principle that Canada, as far as the  
16 rate of the withholding taxes is concerned, would  
17 really be at the mercy of foreign governments?

18 MR. McDONALD: Mr. Chairman, there is of  
19 course an element of Canada being at the mercy of a  
20 foreign power, to the extent that fiscal policy in  
21 Canada dictates that no tax disincentives be aimed at  
22 foreign investors in circumstances in which Canada  
23 has to give ground in exercising its tax power in order  
24 to avoid the imposition of such disincentives to  
25 foreign investors. To that extent, therefore, one  
26 might say that Canadian policy in the field of  
27 withholding taxes can be affected by what foreign  
28 governments do. The purpose of this particular state-  
29 ment is to draw attention to the fact that in view of  
30 the amendments of the internal revenue code of last fall,



1 grossing up provisions of the Revenue Act of 1962, that  
2 it is now no longer possible for U.S. parent corporations  
3 to arrange for a mix of foreign source income in order  
4 to arrive at an overall 52 per cent corporate tax rate.

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1 And the imposition of withholding tax in some cases  
2 at the rate of 15 per cent produces an over-all rate of  
3 tax in excess of 52 per cent in the United States. To  
4 the extent that a United States corporation -- I  
5 am merely using the United States as an example --  
6 has a free choice in its foreign investment policy so  
7 as to eliminate an investment tax which arises in this  
8 fashion, the Commission will consider whether that  
9 tax applies to Canada's detriment.

10 According to all published material of the  
11 Senate and House of Representatives, it indicates that  
12 the main consideration was with regard to the so-called  
13 tax deferral and the legislative amendments last fall  
14 to inhibit U.S. taxes on foreign-owned subsidiaries,  
15 and one of the reasons was that a United States  
16 corporation which has subsidiaries abroad can have  
17 freedom from Canadian income tax, such earnings then  
18 being deployed around the world to other subsidiaries  
19 in the group. This is not possible under Canadian tax  
20 law. But in the field of manufacturing I understand  
21 in recommendations made in the published reports of the  
22 treasury department Canada is not regarded as a tax  
23 haven and it is solely as to investment type income and  
24 foreign based tax sales income.

25 So in answer to the specific question which  
26 you put, the most important section in the Canadian  
27 Income Tax Act with respect to United States policy is  
28 28 (1)(d), which includes tax where it is more than  
29 25 per cent owned.

30 MR. STEWART: If we are in a position that



1 foreign tax credit laws of a particular country, let's  
2 call it country X, are such that a company which has a  
3 Canadian subsidiary cannot obtain relief in respect  
4 of Canadian taxes in respect of their subsidiary and  
5 Canadian withholding tax paid by the parent, I can  
6 quite see that from the point of view of attracting  
7 investment by country X in Canada the Canadian with-  
8 holding tax might be eliminated. But would that not, as  
9 I said earlier, be putting Canada at the mercy of  
10 company X as far as withholding taxes are concerned?

11 MR. McDONALD: Yes, Mr. Stewart; I think  
12 the answer must be yes.

13 THE CHAIRMAN: Well, I think you have got  
14 the answer to that. You are not suggesting that the  
15 government should impose a withholding tax?

16 MR. McDONALD: No, I would not, Mr. Chairman.  
17 The policy in Jamaica is somewhat similar. This is  
18 really a problem in the same area.

19 MR. STEWART: I am not quite sure whether the  
20 problems we have been discussing relate as far as  
21 you are concerned simply to a direct investment by  
22 foreign corporations in Canada or whether they also  
23 extend to portfolio investment by individuals.

24 MR. McDONALD: Perhaps, sir, I might suggest  
25 to our Chairman, Mr. Flynn, that he select someone with  
26 a wider knowledge of economics than myself to answer  
27 this. My only comment would be that there are other  
28 factors than taxes which are perhaps more important in  
29 this area, one being the rate of yield on investments  
30 which has been traditionally higher in Canada than in





1 the United States. But I would ask your indulgence  
2 to excuse me from answering the question beyond that.

3 MR. FLYNN: I don't think any of my  
4 colleagues here can do any better than that, Mr. Stewart.

5 MR. STEWART: Well, we are in the process  
6 of exploring these questions, and obviously we cannot  
7 complete the exploration today anyway.

8 In paragraph 16 you deal with the effect  
9 of corporation taxes on conduct of business, and you  
10 refer at the top of page 17 to the difference in the  
11 treatment for tax purposes of the interest on borrowed  
12 money and dividends which are paid to shareholders.  
13 You suggest at the end of the paragraph that the  
14 different treatment may have a harmful effect on the  
15 economy, and it may be in the public interest that  
16 the situation be improved by the lowering of the  
17 corporation tax rates. You suggest that the Commission  
18 investigate that question. When you talk about  
19 lowering the corporation tax rates there, are you  
20 thinking of the tax on undistributed income or the  
21 tax on distributed income?

22 MR. FLYNN: That opens up a very wide field,  
23 but I think in this particular case we are thinking of  
24 general reduction in the corporation tax rates. When  
25 we get into the duplicate taxation of corporations, that  
26 is another field, but I think the present tax structure  
27 encourages debt financing rather than equity financing,  
28 inasmuch as interest paid by a corporation on its  
29 debt capital is allowed for tax purposes, whereas the  
30 return on equity is halved approximately by the impact



1 of corporate taxes. To the extent that corporation  
2 taxes are lowered, that will improve the yield on  
3 equity.

4 MR. STEWART: You are not suggesting that  
5 dividends be accorded the same treatment?

6 MR. FLYNN: Well, the implication of that  
7 question is that there would be --

8 THE CHAIRMAN: You haven't put that suggestion  
9 forward.

10 MR. FLYNN: That is not in this section, no.

11 THE CHAIRMAN: I was interested in the fact  
12 that you think there is a great imbalance as between  
13 debt and equity apparently. I am curious about that,  
14 because since dividend credit came into effect, the  
15 proportion of debt ~~and~~ financing has greatly  
16 diminished, and I am wondering if it is not reasonably  
17 in balance now. You don't know?

18 MR. FLYNN: I am thinking more along these  
19 lines, that if a company is raising money and they have  
20 to maintain a dividend, say, a dollar a share a year,  
21 they have to earn two dollars to pay that one dollar  
22 out in dividends, and if they borrowed the money they  
23 only pay -- in effect, it costs them 50 cents.

24 THE CHAIRMAN: But on the other side of that  
25 they are getting 12 to 15 times their earnings if they  
26 issue equity and they are getting a great deal less than  
27 that if they issue bonds?

28 MR. FLYNN: Again we come to the question of  
29 shrinking margins. I think it is all part of one parcel.  
30 It is very difficult to sort it all out.



1 THE CHAIRMAN: Yes, indeed.

2 MR. FLYNN: But I still think that the  
3 present system does tend to encourage debt rather  
4 than equity financing.

5 THE CHAIRMAN: Thank you.

6 MR. STEWART: I notice that in paragraph 17  
7 you deal with one possible effect of high corporation  
8 income tax rates, and at the end of that paragraph you  
9 say:

10 " It would be useful to know whether,  
11 and to what extent Canadian corporation income  
12 taxes operate to increase costs of production  
13 by discouraging the efficient conduct of  
14 business."

15 Now, this is obviously a matter that this  
16 Commission can think about, but can you give us any  
17 guidance as to how we should investigate that particular  
18 problem? Did you contemplate any investigation of it  
19 yourself?

20 MR. FLYNN: I don't think we did contemplate  
21 it, and we hope that manufacturers will not take  
22 advantage of this. But, unquestionably, we do feel  
23 that there is a possibility that a very high level of  
24 taxes does encourage possible extravagance in certain  
25 areas.

26 Mr. Calder, do you have anything to add to  
27 that?

28 MR. CALDER: Well, I think most of us are  
29 familiar with the situation which existed during the war  
30 when profits were limited by excess profits tax, and





1 there is no doubt that at the same time I think a  
2 great deal of emphasis was put on production. So  
3 perhaps management put most of its efforts to obtaining  
4 the degree of production required and realized within  
5 quite wide bounds that the cost of obtaining that  
6 production didn't really matter because of the excess  
7 profits tax. That, of course, was a particular  
8 situation, but it did at least test the level at which  
9 this takes place. Now, to say that it also obtains  
10 to a certain degree with a 50 per cent tax is something  
11 I think one can almost assume just from experience.  
12 I doubt if it can always be proven. We would all have  
13 to go the confessional to have all this brought out.  
14 But I think most of us agree that if the tax rate  
15 was 75 per cent there would be more of this; if it  
16 was 25 per cent there would be less. I am at a loss  
17 to say how effective it would be.

18 THE CHAIRMAN: Salaries, I suppose, would  
19 be one thing; perhaps tend to make themselves a little  
20 more comfortable as to overhead. But do you think  
21 expense account living is a factor in this country? I  
22 suppose it is.

23 MR. CALDER: Yes, that is correct.

24 THE CHAIRMAN: I think we will break for ten  
25 minutes.

26 --- Recess.

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1 MR. STEWART: I would like to go to page 8 of  
2 the submission, where you are dealing with the possible  
3 effect of corporation income taxes on the expansion of  
4 industry, and in order to determine just how strongly  
5 you feel on this particular point, may I ask if you  
6 would be prepared to change the word "how", which  
7 appears in the second last line of that paragraph 18,  
8 to the word "whether"? In other words, are you  
9 perfectly clear that these corporation taxes are apply-  
10 ing a brake to the normal expansion of the Canadian  
11 economy, or is this comparison which you suggest one in  
12 which we may find out later they have that effect?

13 MR. FLYNN: Well, Mr. Stewart, I don't think  
14 I would settle for changing the "how" to "whether",  
15 because I personally anyway feel that the -- and again  
16 I come back to this question, or this statement, that  
17 profits in manufacturing have been halved over the last  
18 ten years. Now, the result of that has been to, I am  
19 quite sure, but it would be difficult to prove it,  
20 inhibit the investment of risk capital in this country,  
21 and with returns of seven per cent, which I believe is  
22 the average in 1960 or 1961, a return on risk capital  
23 on equity in manufacturing, I think quite obviously if  
24 taxes have brought it down to that level, even in some  
25 measure, they are responsible for a restraint on  
26 industry, particularly in risk ventures.

27 MR. CALDER: Well, I quite agree with the  
28 suggestion of changing "how" to "what", and I do feel  
29 that this is an area that the Commission will want to  
30 investigate. None of these things are easy to do, and



1 I think the people presenting this brief to you today  
2 would be the first to suggest that this is not easy.  
3 But just because it is difficult, I don't think we can  
4 ignore the problem. To point out the degree, I think  
5 a little later on in the brief, in the next sections  
6 we give some for instances, and perhaps they may help  
7 in the question that you are raising, Mr. Stewart?

8 THE CHAIRMAN: I think, Mr. Stewart, it might  
9 be well to point out that one would need to look beyond  
10 tax laws in the countries in order to ascertain what the  
11 effect of tax laws has been in those countries. For  
12 example, those countries that have had considerable  
13 inflation have also had expansion, and that is no thanks  
14 to their tax laws.

15 MR. STEWART: You go on to speak of the effect  
16 of taxation on the organization of industry. You deal  
17 with the taxation of co-operatives and with the taxation  
18 of companies which are owned by provinces and municipi-  
19 palities.

20 Might I ask whether, so far as you are aware,  
21 our present tax structure affects, or has affected,  
22 business organization in this country in any other  
23 fields? The one thought which first comes possibly to  
24 mind is that taxation has something to do with the  
25 determination of the question of whether a particular  
26 business will be incorporated or not, but are there any  
27 other points here that occur to you at the moment that  
28 we should be thinking of in this connection?

29 MR. EWENS: I think these two were the ones  
30 which occurred to us as being probably the most



1 significant ones where taxation did seem to have a  
2 noticeable influence on corporate activity. I suppose  
3 the low rate of taxation on the first \$35,000 of  
4 corporate income has some effect. Perhaps the lack of  
5 privilege of filing consolidated tax returns may have  
6 some influence here too, but I think essentially we were  
7 looking at areas where freedom from, or the intrusion of  
8 corporate income tax of a low rate had some influence.  
9 These really were Crown corporations and co-operatives.

10 MR. STEWART: Then you go on on page 10 and  
11 deal with the distribution of burdens, and in paragraph  
12 24 you suggest that the Commission consider all cases  
13 of discrimination which are to be found in our present  
14 tax laws and determine, I take it, whether or not those  
15 discriminations are justified in existing circumstances.  
16 This presumably would mean that all incentives would  
17 have to be considered as well, because I suppose that  
18 something which is an incentive for one person may be a  
19 discrimination against another.

20 Perhaps you could indicate to us whether as  
21 far as manufacturers are concerned there are any  
22 discriminations under the existing laws which we should  
23 have in mind?

24 MR. EWENS: Well, I suppose you could look at  
25 a variety of things here. We could go back again to  
26 co-operatives. We could look at exemptions in connec-  
27 tion with commodity taxation, and perhaps these things  
28 could also be examined from the point of view of  
29 whether the situation is different today, where the  
30 exemptions appear at a corporate tax rate of about





1 the 50 per cent level, whereas at the time these  
2 commodities were introduced the corporate tax rate  
3 could have been at a 15 per cent rate, or somewhat  
4 lower level.

5 MR. STEWART: Are there any provisions in the  
6 present legislation which are in favour of manufacturers,  
7 which you think other taxpayers may take exception to?

8 Mr. Chairman, we are now coming to a section of  
9 this brief which deals with commodity taxes. Would you  
10 like to go on with it?

11 THE CHAIRMAN: Yes, I would like to ask a  
12 few questions on that. Not that I propose to go very  
13 deeply into it, despite the fact that I see Mr.  
14 Martin Gorman in the room, but the Canadian  
15 Manufacturers' Association has always had a very real  
16 interest in commodity taxes, and I remember some years  
17 ago it was perhaps responsible for the appointment of a  
18 Committee to look at the subject, and certainly bore  
19 down very hard at that time on it.

20 I would expect that the Association would come  
21 forward with some very detailed recommendations with  
22 respect to sales tax. Would that not be so, Mr. Flynn?

23 MR. FLYNN: I think so in the full submission.

24 THE CHAIRMAN: Good. Would you have any  
25 thoughts as to the level where sales tax is imposed?  
26 I know that you quote, you produce a reference from  
27 the Sales Tax Committee, indicating that after suitable  
28 preparation and explanation to the taxpayers of the  
29 basis of the change to a different level -- it might  
30 also of course be at the retail level. That was the





1 wholesale level at that time, and I hope you will  
2 consider, perhaps you have already, the desirability of  
3 a change in the level. At this time there are no  
4 restrictions imposed as to what we might recommend in  
5 that respect.

6 Have you any thoughts on that?

7 MR. FLYNN: That is under consideration at the  
8 present time. We have not come to any definite conclu-  
9 sion as yet.

10 THE CHAIRMAN: And of course another matter of  
11 great importance is the extent of the sales tax base.  
12 I believe there is a thought somewhere in the land that  
13 it might be considerably widened. I don't know what  
14 line that ought to take, but certainly one must consider  
15 certain services, I believe. I would have thought that  
16 the distinction between goods and some services is not  
17 a very valid distinction. Between goods and some other  
18 services it may be valid, but I am not at all sure where  
19 the line ought to be drawn. Like you, we have not yet  
20 really given consideration to it.

21 MR. FLYNN: No, we have not as yet, Mr.  
22 Chairman, come to any conclusions on that area. We have  
23 suggested here that it is a fruitful field for the  
24 Commission to look into. At this point we would not be  
25 prepared to make a recommendation.

26 THE CHAIRMAN: Well, I would certainly hope  
27 that your Association will be prepared ultimately to  
28 come to a conclusion on this matter. It may be a diffi-  
29 cult one for you, but certainly it is never going to be  
30 without controversy. Someone has to conclude. Perhaps



1 that is up to us to say alone. I don't know, but if  
2 that is the case, we would like to know the pros and  
3 cons, and certainly I would like to be so bold at that  
4 time to ask you what your choice would be.

5 MR. FLYNN: When the time comes I think we  
6 will have views on it, Mr. Chairman.

7 THE CHAIRMAN: I don't think, Mr. Stewart, I  
8 wish to pursue this subject beyond that.

9 MR. STEWART: Perhaps we might go to page 16  
10 of the submission. We have already discussed your  
11 views as to the effects of corporation income taxes  
12 and other corporation taxes on the economy and our  
13 economic growth. Paragraph 38 of the submission deals  
14 with personal income taxes, and you say in the second  
15 sentence there that you feel that there are sound  
16 reasons for the opinion that the present rates of  
17 personal income taxes, particularly in the middle and  
18 higher brackets, discourage capital investment and  
19 economic growth.

20 May I ask if this is another of these things  
21 which are more or less axiomatic, or whether you have  
22 particular reasons, or evidence, which you could give  
23 us on that particular point?

24 MR. FLYNN: Again, I don't think, Mr. Stewart,  
25 that we can give you any specific examples, but I  
26 think that it is almost an inbred feeling.

27 Would you care to comment on that, Mr. Watson?

28 MR. WATSON: That is paragraph 38 as it stands?

29 MR. FLYNN: Yes.

30 MR. WATSON: Well, I would be inclined to take



1 up your suggestion, Mr. Stewart, that the conclusions  
2 are reached by the axiomatic process. I would think  
3 that we all have our own personal experiences in  
4 business. I think that that one sentence there -- I  
5 know in my own personal experience, knowing people who  
6 are young, capable chaps leaving Canada because of the  
7 high income tax structure, going to the States. I  
8 think it is a fairly obvious thing that the last sentence  
9 is a valid point. So often in the early days of income  
10 tax, and it still holds good, a man would say "Well, I  
11 am not concerned with what my tax is. What am I going  
12 to take home?" They are getting a little more used to  
13 taxes now perhaps, but I would say that it is an  
14 axiomatic conclusion. Whether it could ever be weighed  
15 and measured I wouldn't venture a guess. There is a  
16 feeling of -- naturally, of course, if they can get  
17 something besides an actual cash salary they will reach  
18 for that. It is a form of getting something for nothing,  
19 if you like.

20 I am only trying to amplify from my own  
21 personal experience just what are these particular  
22 points, and how they apply. I don't know how it could  
23 ever be measured.

24 MR. STEWART: I was interested, Mr. Watson, in  
25 your statement that you knew people who were leaving  
26 Canada, or disposed to leave Canada, for taxation  
27 reasons. That decision, of course, to emigrate is a  
28 very personal decision, and I would assume that the  
29 tax factor was only one of various factors which would  
30 be taken into account.



1 MR. WATSON: Oh yes, a contributing  
2 factor.

3 MR. STEWART: Yes, but are people whose cases  
4 have come to your attention people who are going to  
5 countries where the tax rates are very much less than  
6 in Canada?

7 MR. WATSON: Possibly. I think you have a  
8 point there. The impact of Canadian taxation on the  
9 smaller salary, perhaps, put it that way. But if our  
10 tax rates were lower it would compensate for that.  
11 It is a roundabout way of arriving at it but I think  
12 that probably is a lesser factor, one of the lesser  
13 factors in the paragraph. I think it certainly creates  
14 what did bother the country for some time, the spiral  
15 of higher wages and higher income tax. I know  
16 there are certain cases, I know them in my own plant  
17 where we had a lot of piecework and the girls will say,  
18 "Well, I make so much a week and now if I make more  
19 per week, if I have to work more" -- they have it worked  
20 out at so much a piece or so much an hour and they get  
21 so much and they say, "Now if I make \$70 a week I am  
22 really getting so much out of it, I am really working  
23 for so much, but if I make \$80, \$90 or \$100 a week I  
24 am really not making that much at all and my time per  
25 hour is not being paid much more than from before."  
26 That is actually in my own personal experience I run into  
27 these cases. These girls would rather not work any  
28 harder, they would rather not work any longer. I  
29 think if you want to deal with personnel, that is all I  
30 can say to that point.





FF/2  
1 COMMISSIONER WALLS: Would you favour a  
2 level percentage of income tax irrespective of wage  
3 scales rather than a progressive?

4 MR. WATSON: That is a deep point. I would  
5 hate to be dogmatic about it but I am only pointing  
6 out what the impact is at the moment. It would take  
7 a lot of study to work that out and I do not know what  
8 the impact of that would be.

9 THE CHAIRMAN: Well, if you remember --  
10 I think Mr. Walls may have forgotten it -- the pattern  
11 of taxation dealt with in a paper by Kenneth Eaton some  
12 time ago which I think he worked out a flat tax of  
13 16 per cent as being equal to what we are now getting.  
14 However, in that 16 per cent he had no regard for  
15 for any personal or marital deductions of any type  
16 whatever. If he had done that it would not have been  
17 16 per cent, it would have been a great deal more than  
18 16 per cent, perhaps as much as or nearly double that  
19 amount. It would have been a great deal more.

20 MR. WATSON: I think it is safe to say  
21 from experience that it is this incentive in the in-  
22 dividual cases of lower income brackets.

23 MR. FLYNN: I think Mr. Taylor would add  
24 something different.

25 MR. TAYLOR: I would if I may treat it as  
26 the introduction of the post-war period of stock option  
27 plans and fringe benefits and things that have been  
28 developed in the States. We have seen people moving  
29 from Canada to the States for that kind of thing.  
30 There is a surge of people getting around to take



F-3  
1 advantage of it and in that particular case it does mean  
2 investment in private enterprise.

3 MR. FLYNN: Have you anything to add in this  
4 area, Mr. McDonald?

5 MR. McDONALD: Only one observation,  
6 Mr. Chairman. There are, of course, many statistical  
7 sources of information in this area. If I were  
8 attempting to answer this question I think I would like  
9 to know what percentage of all shares in the capital  
10 stock of corporations are held by persons with incomes  
11 above \$10,000 a year; what economic<sup>group</sup>/held most of the  
12 equity stocks of this country; to what extent does high  
13 progressive rates of taxation simply take funds away  
14 from Canada which would normally be those who would  
15 invest in equity growth stocks in this country. I  
16 think these are relevant factors to look into.

17 The other inquiry I think I would undertake  
18 would be to look into the direction of institutional  
19 investment, investment by insurance companies, trust  
20 companies and so on and see to what extent the growth  
21 of capital formation in the private sector might or  
22 might not be inhibited by tax receipts applicable to  
23 such investments. There are really two subdivisions  
24 to the question; one, the personal, the individual  
25 investor and the other is the institutional.

26 THE CHAIRMAN: The institutional strikes me  
27 as being a perfectly reasonable suggestion. Looking  
28 into the personal one I would consider to be a great  
29 deal more difficult and I would be glad of any suggestions  
30 you may have. I happen to know an awful lot of shares



FF-4  
1 are registered in the names of nominees and it is not  
2 possible to form any idea whatsoever as to who holds  
3 them. One runs into that, of course.

4 MR. McDONALD: There are some helpful figures  
5 in the United States where it can be determined what  
6 proportion of capital revenue comes from capital gain  
7 companies and what the economic group is which received  
8 most of the capital gain. By interpolating from these  
9 statistics I think a reliable assumption can be made  
10 that a very substantial portion of the equity holdings  
11 are by the higher income groups. When we consider the  
12 question, the higher rate of tax, I hope we consider the  
13 effects of such tax on those responsible for private  
14 personal investment in equities. There are also some  
15 helpful statistics in our own publication, the annual  
16 taxation statistics. In this area, for instance, I  
17 believe in the last figures there are 2,000 persons  
18 indicated for 1961 out of almost 4 million taxpayers  
19 with incomes above \$50,000. When one examines the  
20 marginal tax rates in the Income Tax Act one finds a very  
21 insignificant number of taxpayers who are paying a rate  
22 above 50 per cent and the progressive rates above  
23 that level, therefore, do not make much sense in the  
24 case of some persons. These are things you may wish  
25 to look into.

26 MR. EWENS: One brief comment in this area;  
27 the suggestion is made in this statement that Canadian  
28 rates may be high. I am sure the Commission are perhaps  
29 aware of the fact that in comparing Canada with other  
30 countries it is not enough to examine the rates and compare



1     them, for instance, Canada with the United States.

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2     It will also be necessary to look at the variety and  
3     differences of deductions available in the two  
4     countries which can have quite an effect on a person  
5     in any salary level.

6             THE CHAIRMAN:     Well, I think it was pointed  
7     out something like 20 per cent <sup>of</sup> the base for personal  
8     taxation on income had disappeared or been eroded  
9     on personal exemptions whereas in Canada it would be  
10    very much less than that.

11            MR. STEWART:    Could we pass to page 18  
12    where you deal with the question as to how tax laws  
13    can be formulated to encourage Canadian ownership of  
14    Canadian industry without discouraging the flow of  
15    investment funds into Canada? Now, we discussed  
16    briefly a short time ago the question of whether or  
17    not there are or might be any particular Canadian  
18    tax provisions which would attract foreign investors  
19    into Canada. If I may ask one or two other questions  
20    on foreign investment before we go on with what you  
21    say under this heading. As far as you know, are  
22    there particular reasons which have led foreign  
23    companies to come to Canada to establish operations  
24    here? Obviously over the years a great many people have  
25    come but is it easy to classify the reasons for their  
26    coming? Can you make any suggestions as to how the  
27    Commission should pursue that particular question?

28            MR. FLYNN:    Well, I assume, Mr. Chairman,  
29    the way you framed the question as to why people come,  
30    probably the most important reason is political stability





FF6

1 and the resources of the country and growth of the  
2 country. I do not know what period we are covering in  
3 that very general question. I presume you are leading  
4 up to wondering whether our tax laws have been  
5 beneficial to foreign investment, is that it?

6 MR. STEWART: That was my next question.  
7 Let us take the post-war period.

8 MR. FLYNN: How would you like to tackle  
9 that one, Mr. Ewens, because you are in an industry  
10 that has attracted a tremendous amount of foreign  
11 capital.

12 MR. EWENS: I think it was attracted, in the  
13 first place, because of the presence of natural resources  
14 and stability of government. I do not think Canadian  
15 taxes, and certainly through the years the operation,  
16 would have influenced foreign capital to come to  
17 Canada with the United States tax permitting them to  
18 file consolidated returns claiming Canadian loss against  
19 otherwise taxable income in the United States. In  
20 many cases the foreign operations would not be profitable  
21 in Canada for a very considerable period of time so  
22 that Canadian taxes were probably farthest from their  
23 minds in the early stages of development

24 MR. STEWART: That is in the particular  
25 industry?

26 MR. EWENS: That is right.

27 MR. FLYNN: Mr. Cumming?

28 MR. CUMMING: I have perhaps two remarks.

29 I would say in the light of the statements made over  
30 the past few years by many prominent Canadians, there



1 has not been particularly a paucity of foreign  
2 capital coming into Canada. Some people feel there  
3 has been too much but I do not agree with this. I  
4 would say a great deal of capital coming to Canada,  
5 in my experience from Europe particularly over the  
6 past few years is very, very patient capital, that is,  
7 capital that is coming over here not thinking about  
8 immediate return. It is different with American  
9 capital which looks to see something on the books at  
10 least the next year. I have talked with a member of  
11 a large scale European industrial firm in the same type  
12 of business that I am in and he tells me they are not  
13 even looking at the return they are going to get from  
14 their capital for another 25 years. They are influenced  
15 by the political stability and so on. I would say  
16 our tax laws now may bear very little resemblance  
17 to those that may be in effect at the time these people  
18 are thinking of a return. I would find it hard to  
19 state that our existing tax laws have served as a  
20 serious deterrent to foreign capital.

21 MR. STEWART: Neither as a deterrent nor  
22 as an encouragement.

23 MR. FLYNN: Can you add anything, Mr. Calder?

24 MR. CALDER: No, I do not believe so.

25 MR. STEWART: In paragraph 44 you make an  
26 interesting suggestion about the desirability of  
27 improvement in the tax credit for dividends as an  
28 incentive for encouraging Canadian ownership of  
29 Canadian industry. In paragraph 45 you say:  
30



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1       "               Alternatively, the elimination of this  
2               double taxation on corporate earnings by a  
3               reduction or even complete elimination of the  
4               corporate on earnings distributed to the  
5               shareholders should be investigated by your  
6               Commission."

7               Apparently this is <sup>intended</sup> as a means of stimulating  
8               or suggested as a means of stimulating Canadian owner-  
9               ship and control of Canadian companies. I wonder  
10              if you could perhaps enlarge on that? I am not quite  
11              clear how that particular step would affect Canadian  
12              ownership of Canadian industry.

13             MR. FLYNN: Well, Mr. Chairman, this is  
14             at best a highly controversial subject. I think one  
15             of the reasons for suggesting the elimination of  
16             double taxation to be looked into is that that would  
17             solve any of the problems of designated surplus and  
18             anticipated surplus and so on. I think Mr. McDonald  
19             could help me out in that area. It would simplify the  
20             whole tax structure and would, we believe, make it  
21             easier for Canadians to acquire Canadian companies  
22             rather than foreign companies acquiring them if you  
23             would designate surplus provisions and so on. We  
24             know there are ways of getting around it but it costs  
25             money and it is untidy. I think that was at the back  
26             of our minds to some extent.

27             MR. McDONALD: Well, Mr. Chairman, as you  
28             know -- to take a hypothetical case, under present law  
29             if a taxpayer, an individual had \$200,000 in shares of  
30             capital stock on which he received \$10,000 a year in



1 dividends -- we will make this a good company -- and  
2 had no other income, if he paid the 20 per cent he  
3 would pay \$90 security tax and not a penny more,  
4 roughly. So the 20 per cent grade in that hypothetical  
5 case eliminates the income tax. In the majority of  
6 cases concerning individuals the 20 per cent grade  
7 eliminates the income tax liability. It depends  
8 on the proportion of income from other sources that  
9 forms part of the total income. If I may express a  
10 personal view, I would say the complete elimination  
11 of tax on dividends received by domestic taxpayers  
12 for two reasons; firstly, because in my opinion the  
13 tax is very low and, secondly, corporate shareholders  
14 are entitled to receive dividends tax-free and it  
15 has become common practice for private individuals  
16 to join incorporated investment clubs in order to  
17 receive tax-free dividends.

18 THE CHAIRMAN: That is Canadian corporations?

19 MR. McDONALD: Yes, these investment clubs  
20 must not be personal corporations. Generally I think  
21 the Act as it now stands does not recognize the  
22 realities of the situation. I would like to see that  
23 tax eliminated and I do not think the government loss  
24 would be noticeable.

25 MR. STEWART: I have been wondering if  
26 this sentence was intended to apply to something, to  
27 dividends to resident Canadian shareholders with a  
28 fairly narrow definition of what is Canadian, ex-  
29 cluding foreign control.

30 MR. McDONALD: The suggestion is not to ensure





1 any relief from withholding tax.

2 MR. STEWART: I think that is enough for  
3 my present purpose. There may be other problems if  
4 dividends were paid by one Canadian resident company  
5 to another Canadian resident company with was the  
6 second company being subject to foreign control but  
7 this is a matter to be considered during the investi-  
8 gation. On page 19, paragraph 46 you refer to the  
9 desirability of achieving greater clarity, simplicity  
10 of effectiveness in the tax laws and their  
11 administration. This unquestionably is one that is  
12 difficult to answer but if we took as three objectives  
13 in tax legislation simplicity, clarity and equity,  
14 would you be prepared to rank those in order of  
15 importance?

16 MR. FLYNN: I think we would reverse the  
17 order you quoted to equity, clarity and simplicity  
18 in that order.

19 THE CHAIRMAN: Clarity would include  
20 certainty, would it? That word is usually thrown into  
21 any discussion.

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1 MR. FLYNN: Certainty in tax matters, Mr.  
2 Chairman, I don't know that it would be possible to  
3 achieve that completely.

4 MR. EWENS: Well, if it would be possible to  
5 do so, I think it would be desirable to combine both.

6 THE CHAIRMAN: I think I stand corrected.  
7 I don't think certainty is measurable by degree.

8 MR. STEWART: I come to your reference to the  
9 substitution of administrative discretion by the rule  
10 of law, as it is called. Now, having had experience  
11 now for a number of years with the rule of law, in the  
12 Income Tax Act, in any event, could you comment on that  
13 experience and on the specific question whether you  
14 would now be prepared to accept some degree of adminis-  
15 trative discretion in the legislation if that did bring  
16 about increased simplicity in the legislation?

17 MR. FLYNN: It is very hard, Mr. Stewart, to  
18 answer that specifically, but I think the consensus  
19 would be that it is better to have the present rule of  
20 law rather than extend ministerial discretion.  
21 Ministerial discretion exists, what, in two or three  
22 sections, Mr. McDonald?

23 MR. McDONALD: I think really there is only  
24 one left.

25 MR. FLYNN: I don't think anyone would want  
26 to go back to the old system, although it is part of  
27 the act of ministerial discretion.

28 MR. STEWART: Thank you. Now, to go over to  
29 page 20, I see in paragraph 49 you deal with the  
30 suggestion which has been made that tax measures may be



1 subjected to examination before they are actually  
2 enacted. I think in passing I would like simply to say  
3 that I am not sure that, again, the Commission would  
4 agree that the solution you suggest goes beyond its terms  
5 of reference.

6 Perhaps I can put it to you this way, that if  
7 the Commission is concerned with <sup>the</sup> bulk of the fiscal  
8 system, it would be reasonable for it to deal with the  
9 mechanics of the effect of changes in the system from  
10 time to time. Now, that obviously is not a question  
11 but a comment, but if you have other comments on it, I  
12 am sure the Commission would appreciate it.

13 MR. FLYNN: I don't think we have anything to  
14 comment other than what is here, Mr. Stewart. I think  
15 we are glad to know that you feel that that is within  
16 the terms of your reference.

17 MR. STEWART: Now, in paragraph 50 you refer  
18 to one of the final points in the Order in Council, and  
19 you suggest that under that heading the Commission  
20 give careful consideration to provincial and municipal  
21 taxation, and you did deal with certain aspects of  
22 provincial and municipal taxation earlier in your  
23 brief, and I refer in particular to paragraphs 30 to  
24 35. But could you perhaps give us some indication of  
25 what you think we ought to be doing along these lines,  
26 <sup>having</sup> regard to, among other things, the existence of  
27 certain provincial taxation commissions?

28 MR. McDONALD: Mr. Chairman, this is a more  
29 significant area in view of the recent history in the  
30 area of federal-provincial tax-sharing arrangements,



1 and I am quite sure that you do not wish to hear any  
2 extended comment today on that subject.

3 I would like merely to give one example, with  
4 reference to the suggestion thrown forward for discussion  
5 dealing with sales taxes, indirect taxes. The idea is  
6 advanced that the Commission may wish to investigate  
7 the feasibility of a national sales tax at the wholesale  
8 level which would be federally administered under tax-  
9 sharing arrangements with the provinces. Any decision  
10 or recommendation in that direction certainly cannot be  
11 made without including provincial indirect taxes in  
12 your studies, and, therefore, in that field alone a  
13 view of the provincial sales taxes is essential.

14 I cite this merely as an example.

15 THE CHAIRMAN: I assume you will, through your  
16 provincial organizations, keep in touch with provincial  
17 Royal Commissions where there are such.

18 MR. FLYNN: Yes, Mr. Chairman, that will be  
19 done.

20 MR. STEWART: Now, could we come to the foot  
21 of page 20, to certain paragraphs which deal with  
22 corporation income taxes. In paragraph 53 on page 21  
23 you deal with the question of whether the burden of  
24 those taxes is shifted, and you suggest that it may  
25 take place under certain conditions but not under others.  
26 I don't know whether you wish to add anything to it at  
27 the moment.

28 From what has been said already <sup>at</sup> this hearing  
29 and other sittings, it seems reasonably clear that the  
30 extent to which this tax can be shifted is somewhat





1 obscure, there is a dispute on the point, and it is  
2 obvious that there is no clear answer.

3 MR. FLYNN: I think, Mr. Chairman, that is so,  
4 and I think it depends on the economic conditions of the  
5 time and it may vary in different industries and it will  
6 vary in different business cycles. I think, as we  
7 mention here, in circumstances of under-utilization of  
8 capacity there will be an emphasis on switch at times;  
9 sometimes the taxes will be passed on to the consumer  
10 and again sometimes -- I think over the past ten years  
11 quite a bit has been absorbed by shareholders.

12 Would you care to add anything, Mr. Cumming?

13 MR. CUMMING: I don't think I can add anything  
14 more in that regard.

15 THE CHAIRMAN: Mr. Stewart has asked if we,  
16 the Commission, are going to be able to state the  
17 degree of shifting and how much corporation taxes are  
18 borne by shareholders. There have been many attempts  
19 made on this, I don't think any with any satisfactory  
20 results.

21 MR. FLYNN: I think it would be interesting if  
22 you could find an answer, Mr. Chairman.

23 THE CHAIRMAN: Thank you.

24 MR. STEWART: I think it would also be very  
25 helpful to the Commission if the Canadian Manufacturers'  
26 Association could find an answer.

27 MR. FLYNN: I am afraid that one is beyond us  
28 and it is obviously a very difficult question.

29 THE CHAIRMAN: I wouldn't like to offer  
30 boldly that we are going to come out with a final



1 answer for all time.

2 MR. FLYNN: I think various studies have been  
3 made in the States, with indecisive results.

4 MR. STEWART: Would this follow, Mr. Flynn,  
5 that to the extent that corporation tax is shifted  
6 the double taxation of corporation income does not  
7 exist?

8 MR. FLYNN: Of course, I can't accept the  
9 premise that it is always shifting. I don't think that  
10 that does completely answer, assuming you can push all  
11 the tax back. Mr. Ewens?

12 MR. EWENS: I think offhand I would be  
13 inclined to agree with Mr. Stewart.

14 MR. STEWART: These are offhand answers at  
15 the moment.

16 THE CHAIRMAN: Of course, one might go on and  
17 say if it is shifting there is very little justification  
18 for the dividend.

19 MR. FLYNN: Yes, that would follow.

20 MR. TAYLOR: Sometimes I believe a method of  
21 determining whether the tax has been shifted is to talk  
22 about prices, and if the price is increased then one  
23 assumption would be that the tax has been shifted.  
24 That shouldn't, of course, disregard increases in  
25 equity which are so much more difficult to measure  
26 than increases or changes in price.

27 MR. STEWART: I observe at the end of paragraph  
28 53 you suggest that corporation tax ~~might~~ be altered.  
29 At that point, at any rate, you do not suggest or do  
30 not make a suggestion which has been made somewhere



1 that corporation income tax be eliminated altogether.

2 MR. FLYNN: No, but that possibly should be  
3 considered within the suggestions we have made as to  
4 what might be done. We have not specifically mentioned  
5 that.

6 MR. STEWART: In paragraph 54 you deal with the  
7 existing incentives, and you suggest that consideration  
8 might be given to the elimination of incentives with a  
9 corresponding reduction in corporation tax. In  
10 paragraph 55 you deal further with some of our existing  
11 Canadian incentives.

12 Now, you suggest that these be carefully  
13 examined by the Commission. Again, have you any sugges-  
14 tions to make as to how we go about determining the  
15 effectiveness of these incentives and the extent to  
16 which they accomplish their stated purposes?

17 MR. FLYNN: Well, Mr. Chairman, first of all,  
18 in using the word "incentive" we have included the  
19 four items which are really accelerated, additional  
20 capital cost allowances. It depends what you mean by  
21 incentive. Incentive in these four things is to get an  
22 interest-free loan repayable at some uncertain date in  
23 the future and at an unknown cost, and the reckoning  
24 day sometimes comes. Now, business has taken advantage  
25 of that; the day of reckoning may come. As long as the  
26 economy grows, I think that day is put off and off.  
27 But what we have in mind here is that there should be  
28 some assessment of the benefits of these so-called  
29 free loans opposite an outright reduction in taxes  
30 rather than these unknown items. And, furthermore,



1 that consideration should be given to a definite and  
2 positive incentive, such as recently introduced research  
3 or investment allowances such as they have in the U.K.,  
4 or possibly a reserve provision, I think, such as in  
5 Sweden. We feel that this whole area should be explored.

6 THE CHAIRMAN: Might I ask a question? Under  
7 the heading of the interest-free loan, you referred to  
8 it because of accelerated depreciation?

9 MR. FLYNN: Right.

10 THE CHAIRMAN: Would the general Canadian  
11 depreciation fit into that category?

12 MR. FLYNN: Yes.

13 THE CHAIRMAN: To the extent that they do that,  
14 of course, they reduce their taxes. That is the  
15 Canadian system.

16 MR. FLYNN: Yes.

17 THE CHAIRMAN: Would it be considered to be an  
18 incentive, do you believe?

19 MR. FLYNN: I have tried, Mr. Chairman, when  
20 that was introduced, to know whether it was a measure of  
21 simplicity which was brought into the picture or whether  
22 there was a deep fiscal idea behind it, because  
23 actually the scheme is inflationary in good times and  
24 deflationary in bad times, and whether you are to  
25 regard that as an incentive or not, I don't know.  
26 It has got so involved now with others added on to the  
27 reducing balance method that I don't know how you really  
28 assess it.

29 THE CHAIRMAN: Of course, it would be really  
30 very unpopular to all taxpayers to reimpose the old





1 regulation of depreciation.

2 MR. FLYNN: Yes.

3 THE CHAIRMAN: On the ground that it should be  
4 kept to what the taxpayer uses to measure his own  
5 income. That would not be considered fair, I don't  
6 think.

7 MR. FLYNN: I don't think it would be practical  
8 or fair. What might be done is to let taxpayers take  
9 whatever depreciation they want and then the onus is  
10 on them. But at the present time the taxpayer has  
11 little choice but to take all he can for tax purposes.

12 THE CHAIRMAN: Well, he had the right to take  
13 whatever he pleases, of course.

14 MR. FLYNN: Yes, but it would put the onus on  
15 him to manage his affairs prudently so that he wouldn't  
16 take it all in one bite and then be subject to 100 per  
17 cent thereafter. I think it would give the taxpayer  
18 greater control over his business.

19 These are just comments because we haven't  
20 discussed them at all in our committee.

21 MR. STEWART: In this brief you, in effect,  
22 on page 23 suggest consideration should be given to the  
23 rates of depreciation.

24 MR. FLYNN: Yes.

25 MR. STEWART: Going back to the bottom of  
26 page 21, Mr. Flynn, you suggest the Commission might  
27 determine how effective these incentives are. I take  
28 it your Association does not have information which  
29 would permit you to tell us to what extent these  
30 incentives have been used.



1 MR. FLYNN: I don't think we have that  
2 information.

3 MR. CUMMING: I would suggest in the case of  
4 two of the incentives, production, sales increase and  
5 the scientific research incentive, that I think  
6 individually as manufacturers we will be able to come  
7 up with some statistical data in a reasonable time  
8 which will show how effective it is. Certainly the  
9 scientific research incentive has been, and I think  
10 the production incentive has been.

11 THE CHAIRMAN: We want to know what the success  
12 has been, the cost to the government of these. Every  
13 time one gives an incentive in taxation there is a  
14 benefit to somebody and a penalty to somebody else.  
15 One takes the weight in money and one person gives it  
16 to the other person in taxes, and I think we should  
17 know, therefore, that these things are, in fact,  
18 justified and good to the economy.

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1 MR. STEWART: Then, at the bottom of page  
2 23, paragraph 60 you suggest that consideration might  
3 be given to permitting an equalization reserve for  
4 manufacturing and processing businesses. You  
5 describe the general type of reserve. Now, can you  
6 tell us why you consider that a reserve of that sort  
7 should be permitted for this particular type of  
8 business rather than for business generally?

9 MR. FLYNN: Except to this extent, the  
10 employment in this country is going to come from the  
11 manufacturing and processing. In the coming year, the  
12 added employment and I think that the other segment of  
13 the community which have incentives of various kinds,  
14 manufacturers of various kinds.

15 MR. STEWART: You have also suggested we  
16 review all these pretty carefully and make sure they  
17 are justified.

18 MR. FLYNN: Yes.

19 MR. STEWART: Now, I would like to pass on  
20 to page 26 where you have a section on the Estate Tax  
21 Act. I would ask you one or two fairly general  
22 questions about the Estate Tax Act and death duties  
23 generally. The first question is extremely general;  
24 have you considered and would you be prepared at this  
25 stage to indicate what you think about the merit of  
26 death duties?

27 MR. McDONALD: Well, Mr. Stewart, first of  
28 all the estate tax is federal. As the Commissioners know  
29 it is not a large revenue producer, I think the federal  
30 estate tax provides between \$50 million and \$60 million a



1 year in a federal budget of some \$6 billion. We are  
2 talking about petty cash relatively when we look at  
3 estate taxes.

4 The second point is that the estate tax  
5 falls unfairly, in many cases, because of rigidities  
6 in the system one of which requires the valuation  
7 of an estate at the date of death. In this connection  
8 we would respectfully ask the Commission to give  
9 consideration to the alternative valuation date of  
10 six or twelve months after death to remove injustices  
11 in cases in which the death of the particular share-  
12 holder of a family company in effect destroys much  
13 of the value of the family company. Additionally,  
14 it has been set forth in the brief, the tax is payable  
15 very promptly after death under existing law and  
16 no adequate provision is made, in the Association's  
17 opinion, for the provision of security for unpaid tax  
18 in cases where liquidity is not available to the  
19 decedent.

20 These are more or less specific points.  
21 With reference to your general question, what does  
22 the Association think about estate tax, I can only  
23 say that the Association has no opinion in answer to  
24 that question. Dr. Kenneth Eton, as you may recall,  
25 once described this Act as our capital gains tax and  
26 to the extent there is merit in imposing tax on capital  
27 at some stage in the life of an individual then there  
28 is merit in imposing an estate tax. There is some  
29 opinion in the country, in Quebec and Ontario, that  
30 provincial succession duties are not a welcome part of





3  
1 the tax structure. This, of course, is beyond the  
2 terms of reference of the Commission. I hope that  
3 is a satisfactory reply.

4 MR. STEWART: Thank you very much. One of  
5 the questions, of course, which has received a great  
6 deal of publicity over the years and one to which you  
7 refer in your brief is the effect the combined death  
8 duty<sup>the</sup>/income tax squeeze can have on the ownership of  
9 a family business. Now, do you consider that this is  
10 still a serious problem in Canada? I suppose the  
11 number of businesses which is subject to family control  
12 may have decreased over the years partly because of  
13 these taxation considerations and some have been taken  
14 over by other Canadian companies and some by foreign  
15 companies. As a practical matter is this a serious  
16 problem at the present time as far as you can tell?

17 MR. FLYNN: Mr. Watson, would you care to  
18 answer?

19 MR. WATSON: Well, again, it is a very  
20 difficult thing to get any measure of the seriousness  
21 of the problem. I think we have all heard of cases  
22 and seen some of them at pretty close hand where there  
23 has been distinct hardship. It seems to me two points  
24 arise: First of all, the point of equity which really  
25 applies in the case where there is an untimely death.  
26 A man may be in his forties and building something up,  
27 he is pretty well stretched out and with no liquid assets  
28 and he has a heart attack. On the other end of the  
29 spectrum is the case of a man in his seventies or  
30 eighties making provision for his death. He perhaps has



1 no liquid assets worth mentioning but a very prosperous,  
2 well-run business so he decides to sell and gets a good  
3 price. There, of course, is no particular hardship  
4 involved but to the extent that companies in that  
5 category are bought up by people outside of Canada, I  
6 would hazard a guess that it is one of the least  
7 desirable forms of capital because it does not make  
8 three blades of grass grow where one was before. That  
9 is a matter of opinion.

10 Now, as to any means of putting this thing  
11 into figures and figuring out how broad a problem it is,  
12 I do not know just what channel the Commission intends  
13 to work through in cases of this kind. I should think  
14 if the Commission feel that the situation is worth  
15 investigating they could approach trust companies on  
16 the question of estates, in confidence, or anonymously,  
17 just cases they have handled that led to these  
18 predicaments and how they ended. Also banks possibly  
19 would know. I do not know whether any suggestion or  
20 that avenue of approach I am suggesting is outside the  
21 policy of the Commission.

22 There are, of course, some possible  
23 alleviations that could be suggested or be looked into.  
24 I think what has occurred to me is the question of time,  
25 that is, where circumstances say, if a man dies and  
26 his company is probably loaded with a bit of debt he  
27 has no liquid assets, his death is untimely or un-  
28 expected, then as Mr. McDonald ably pointed out, an  
29 interim of six months to two years should be allowed.  
30 A lot can happen to a small family business. There



1 could be a time factor introduced, if the succession  
2 duty could wait for a year or two years or, better  
3 still, if they could make this concession to the  
4 effect that the estates are non-liquid and they could  
5 take some sort of underlying security due in, say,  
6 five years for the amount of the valuation which they  
7 put on it. That is a suggestion that might be worth  
8 study and I think it is. Of course, it comes up  
9 here chiefly in the question of small family businesses  
10 but it could apply to anybody dying with non-liquid  
11 assets.

12 COMMISSIONER GRANT: I would like to add  
13 a word to what Mr. Stewart has said by way of emphasis  
14 perhaps on this particular phase of the Estate Tax Act  
15 and sale of the small family business. That can  
16 happen not only after death but it can happen in  
17 contemplation. I cannot imagine that there would be  
18 any body presenting these views before the Commission  
19 that would be perhaps more concerned with this than  
20 the Canadian Manufacturers' Association so we may look  
21 to you gentlemen for further research into this  
22 matter developed along the lines as outlined by  
23 Mr. Watson, the investigation of <sup>the forced sale of a</sup> private business. There  
24 may be the use of life insurance in some form or  
25 another. There used to be a provision in some of the  
26 provincial Succession Duty Acts whereby you could take  
27 out a policy of life insurance and have it payable to  
28 the provincial treasurer. I know that we had that  
29 in the province of Nova Scotia but it was eventually  
30 eliminated. The present Estate Tax Act takes into





1 consideration the use of life insurance in providing  
2 liquid funds in that it permits the wife to insure  
3 the life of her husband and the proceeds are not part  
4 of the husband's estate should he predecease his wife.  
5 I would like to suggest that this matter be given further  
6 consideration to see if there is some proposal that  
7 could be presented that would alleviate the situation  
8 which exists when a family business must be liquidated  
9 on a short notice and perhaps prevent, by the same  
10 token, a family/<sup>business</sup> being sold in contemplation of death

11 MR. FLYNN: We will take them up.

12 THE CHAIRMAN: Yes, you suggest on balance  
13 that there is merit in a business remaining in the  
14 family rather than being sold. I know of instances  
15 where it has been better in the other direction but  
16 there are all kinds of cases.

17 MR. STEWART: I have no further questions,  
18 Mr. Chairman.

19 THE CHAIRMAN: Have you anything else you  
20 would like to say, Mr. Flynn?

21 MR. FLYNN: I do not think so. Mr. Cumming?

22 THE CHAIRMAN: Before Mr. Cumming says  
23 anything I would like to straighten out one matter in  
24 the record. This is under the heading of "Errata"  
25 because I have made an error, so I am informed. The  
26 16 per cent I mentioned was based on a taxable income  
27 after deducting some personal exemptions as they were in  
28 1959. I am very glad to know that because I was not  
29 aware of it before.





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1 MR. FLYNN: I understood it was with no  
2 exemption.

3 THE CHAIRMAN: That was my understanding but  
4 this comes from such a source that I must accept it.

5 MR. CUMMING: Mr. Chairman, members of the  
6 Commission and associates: On behalf of the Canadian  
7 Manufacturers' Association I would like to say that we  
8 are very appreciative of the broad approach that is  
9 being taken to this present problem that you are  
10 studying. We appreciate having had the privilege of  
11 presenting this preliminary brief. I would say we are  
12 deeply gratified at the obvious, careful attention that  
13 you have given to us. I hope you have evoked something  
14 useful out of this afternoon because I am sure that the  
15 Canadian Manufacturers' Association have. You have  
16 given us some suggestions for future study and when we  
17 submit a later brief I can assure you these will be  
18 given very careful consideration. May I thank you on  
19 behalf of my group for this privilege?

20 THE CHAIRMAN: Thank you for your words  
21 indeed, Mr. Cumming, and thank you all very much for  
22 what you have done to assist this Commission this  
23 afternoon. You have certainly provoked us to greater  
24 thought, as I hope we have yourselves. There are many  
25 areas we have dealt with or with which we will have to  
26 deal which come squarely within the interests of your  
27 Association and certainly we will look forward to your  
28 further submission to us with the keenest anticipation.  
29 I do hope you will find it possible to co-operate  
30 before you come to see us because our staff is quite



1 prepared to work with the Association. Maybe there  
2 are certain tasks we might ask you to take on for us  
3 that remain to be negotiated, and I will not put them  
4 before you now. As things now stand we are indeed  
5 most appreciative for your help this afternoon.

6 Mr. Bennett, is there anything else?

7 THE SECRETARY: That is all this afternoon,  
8 Mr. Chairman. Tomorrow morning we assemble at 9:30,  
9 when Mr. Claude Jodoin and some of his officers of  
10 the Canadian Labour Congress will appear.

11 THE CHAIRMAN: Very well, we will stand over  
12 until 9:30 tomorrow morning.

13 ---Adjournment.  
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3 ROYAL COMMISSION ON TAXATION

4 Hearing held in the Board of  
5 Transport Commissioners  
6 Hearing Room, Ottawa, Ontario,  
7 on Thursday, the 18th day of  
8 April, 1963.

9 COMMISSION:

10 MR. KENNETH LeM. CARTER -- Chairman

11 MR. J. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S. M. MILNE

15 MR. CHARLES E. S. WALLS  
16  
17

18 LEGAL ADVISER:

19 MR. J. L. STEWART, Q.C.  
20

21 RESEARCH DIRECTOR:

22 PROF. D. G. HARTLE  
23

24 SECRETARY:

25 MR. G. L. BENNETT  
26  
27  
28  
29  
30





ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF OTTAWA, ONTARIO

April 18, 1963

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VOLUME NO. 3

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Ottawa, Ontario  
Thursday  
April 18, 1963

1

2 ---On resuming at 9:30 a.m.

3

4 THE CHAIRMAN: Good morning, gentlemen. We  
5 will now call the hearing to order, and we have today  
6 the Canadian Labour Congress.

6

7 THE SECRETARY: Mr. Chairman, ladies and  
8 gentlemen, we have with us this morning Mr. Claude  
9 Jodoin, President of the Canadian Labour Congress,  
10 together with some of the Officers. He is going to  
11 present the brief and speak to it, and I will enter  
12 the brief of the Canadian Labour Congress into the  
13 record as Exhibit No. 7.

13

14

---EXHIBIT NO. 7: Submission of Canadian  
Labour Congress.

15

16

## SUBMISSION OF CANADIAN LABOUR CONGRESS

17

## APPEARANCES:

18

Claude Jodoin - President

19

Donald MacDonald - Secretary-Treasurer

20

Joseph Morris - Executive Vice-President

21

Russell Bell - Acting Director of  
Research Department

22

Abraham Andras - Director of Legislation

23

24

25

26

27 THE CHAIRMAN: Mr. Jodoin, these are the  
28 Commissioners, and you will see our names before us here.  
29 Maybe you will introduce your group first.

27

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29

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31 MR. JODOIN: Thank you, Mr. Chairman, and  
32 Members of the Royal Commission on Taxation. As  
33 indicated by the gentleman just preceding me, you have



1 received the brief itself a while ago, and it is not  
2 our intention to read it to you. It would take more  
3 time than should be necessary.

4 It is my pleasure this morning to introduce  
5 to you what I please myself to call the Minister of  
6 Finance of our Parliament of Labour, the Secretary-  
7 Treasurer of our Congress, Donald MacDonald; on my  
8 right here is Joseph Morris, Executive Vice-President;  
9 then next to him Abraham Andras, Director of  
10 Legislation; and on my left Russell Bell, Acting  
11 Director of our Research Department, whom I will now  
12 ask to resume in a sense the representations that we  
13 are making to your Royal Commission, which has terms of  
14 reference which we consider of major importance so far  
15 as our country is concerned.

16 At the same time I am very grateful for the  
17 opportunity your Royal Commission is giving us to make  
18 our representation to you in what we believe would be,  
19 I assure you, not only in the interests of organized  
20 labour as such, but in our estimation in the interests  
21 of the Canadian citizenry as a whole.

22 So, having said this in the utmost degree of  
23 sincerity I could possess under the circumstances, sir  
24 and madam, I would ask Mr. Bell to take over at this  
25 stage.

26 THE CHAIRMAN: Thank you, Mr. Jodoin. We  
27 are pleased with your expression of confidence in this  
28 Commission, and we are also pleased that you have come  
29 to this preliminary session.

30 The quality of your preliminary brief is



1 certainly high, and it is an interesting one to us.  
2 It is our usual practice to ask the people who appear if  
3 they wish to say a few words. Usually they do, and then  
4 we interchange questions.

5 If that suits you, Mr. Bell, would you care  
6 to proceed?

7 MR. JODOIN: I am certain Mr. Beauvais has  
8 understood the comments that I have made, but --

9 (Speaks in the French language.)

10 COMMISSIONER BEAUVAIS: (Speaks in the  
11 French language.)

12 MR. BELL: How would you like me to proceed,  
13 Mr. Chairman? Would it be preferable for the Members  
14 of the Commission to raise questions with regard to the  
15 submission?

16 THE CHAIRMAN: If you have any statement to  
17 put in, or a summarization, we would be glad if you care  
18 to make it. Otherwise we will proceed right away to  
19 raise questions, and discussion can come about as a  
20 result of the questions.

21 Whichever suits you.

22 MR. BELL: Yes, I think ~~that~~ would be  
23 preferable. I think that whatever information we have  
24 to offer here might well better be elicited by proceed-  
25 ing.

26 THE CHAIRMAN: Very good. You will receive  
27 questions, I might say, from any Commissioner. We sort  
28 of have a mild departmentalization. I am not going to  
29 say it is precise, because it is not.

30 COMMISSIONER PERRY: Gentlemen, we were very





1 much interested in the basic proposition set forth at  
2 the outset of your brief, to the effect that government  
3 expenditures would be not only rising absolutely, but  
4 relatively in terms of gross national product in the  
5 future. You mention several specific areas in which you  
6 think this would be particularly true, education, urban  
7 redevelopment, social welfare and so on.

8 Thinking ahead to your ultimate brief, I am  
9 sure that you will understand that we would appreciate  
10 any sort of elaboration you can give of these develop-  
11 ments. The quantities involved are quite important,  
12 and we will be trying to measure them ourselves of  
13 course, but you might particularly keep in mind the  
14 details of some of the individual areas that you  
15 discuss. Also, you might try and assess the effect  
16 that this kind of a change would have on the produc-  
17 tivity of the economy, and what sources of revenue  
18 should be exploited to provide the increased finances  
19 that are involved.

20 However, there was one specific question  
21 that I wanted to put at this stage. It is a rather  
22 mild one. It is this - in your opening sentence you  
23 say: "---- the acceleration of public needs arising  
24 from modern scientific, technological and economic  
25 developments ...".

26 Now, this is a rather sweeping statement.  
27 I wondered whether it was just a generalization, or  
28 whether you had in mind that the economy was coming  
29 into some new, very important phase, that there would  
30 be some major upheaval as the result of technological



1 development, or whether you simply feel that what is  
2 going on now is a result of these developments, and that  
3 they are going to continue in the future?

4 MR. BELL: Perhaps I should elaborate along  
5 the lines that you indicated, Mr. Perry. I think that  
6 the whole trend, not only here in Canada, but also in  
7 the United States and elsewhere, is towards more and  
8 more what we refer to in our preliminary submission here  
9 as an acceleration of public needs, or public wants.  
10 This is a trend that has been going on now, again not  
11 only in Canada, but in other countries too. That is why  
12 I specifically referred, for example, to the fact that,  
13 I wanted to be very definite about this, that in my own  
14 personal opinion it is inevitable that the public sector  
15 of the economy will increase relative to the gross  
16 national product, simply because there is this growing  
17 trend, a pretty rapidly increasing trend, towards goods  
18 and services, particularly services I should say,  
19 particularly services in the public sector of the  
20 economy.

21 Now, just in the way of a bit more elabora-  
22 tion, or background information on this, I think that  
23 one very important factor responsible for this is the  
24 fact that productivity in the private goods producing  
25 sector of the economy is rising, and has been rising  
26 pretty sharply, and that this is causing a sharp shift  
27 of employment to the service industries, not only  
28 service industries in the public sector but also  
29 service industries in the private sector as well.

30 A couple of simple figures to illustrate the



1 trend in Canada. In 1950 those employed in the goods  
2 producing industries comprised 46.6 per cent of non-  
3 farm employment in Canada. Those employed in the  
4 service producing industries comprised 53.4 per cent  
5 of the non-farm employment in Canada. By 1960 the goods  
6 producing workers had declined, not absolutely, but  
7 relatively as a proportion of non-farm employment to  
8 39.7 per cent, which is a pretty sharp decline over a  
9 comparatively short period of ten years. Those employed  
10 in the service producing industries increased to 63.7 per  
11 cent. In other words, today approximately six out of  
12 ten employees in non-farm employment are now engaged in  
13 service. Only four out of ten, or slightly less than  
14 four, are engaged in the goods producing industries.

15 Now, just to follow this up, it seems  
16 reasonable to assume that as we succeed in satisfying  
17 our so-called material wants, and satisfying them with  
18 fewer and fewer workers, and as our society becomes more  
19 and more highly advanced, then our needs for services,  
20 what I would call very important services, services such  
21 as educational, health, greater social security, and  
22 if I can use the term which has not always been  
23 accepted, the welfare state. The welfare state, as a  
24 matter of fact, is something that is becoming increasingly  
25 acceptable to most, whether they want it, whether they  
26 like it or not. Other services, such as intellectual,  
27 recreational, and so on, these are services that a more  
28 advanced society will undoubtedly want, and want more of  
29 them. This seems to be the consensus of social  
30 scientists in a number of countries now, in this country,





1 in the United States and Britain. More or less in the  
2 advanced industrial countries.

3 At the same time it is becoming increasingly  
4 recognized, I think, that governments are going to  
5 have to provide more and more of these services. Now,  
6 I would just like to qualify that statement by saying  
7 that it does not mean that all of these services will be  
8 provided for by governments alone. Certainly not.  
9 Private enterprise has been, and undoubtedly will  
10 continue to provide some of these services, but at the  
11 same time the very nature of the services requires more  
12 and more government provision. Now, it is precisely  
13 because of that fact that I think one can only come to  
14 the conclusion that the public sector of the economy  
15 will increase, not only absolutely, but also relatively  
16 to the gross national product.

17 I don't know whether that fully satisfies  
18 the question in Mr. Perry's mind?

19 COMMISSIONER PERRY: It is a very good state-  
20 ment in answer to my question. In other words,  
21 specifically you are thinking of the future implications  
22 of technological development as being roughly a continua-  
23 tion of the trends which are now in progress?

24 MR. BELL: Precisely. I would just add one  
25 more factor, sir. Another matter for purposes of  
26 comparison. You certainly are very well aware of this,  
27 and that is if one takes the period of 1929, which was  
28 the last year before the Canadian economy went into a  
29 depression, the total expenditures of all governments  
30 in Canada, proportionate to the gross national product,





1 was about 15 per cent, whereas for 1961 this proportion  
2 had increased to just about around 32 or 33 per cent.  
3 Now, it seems to me that this trend is going to continue.  
4 I wouldn't want to be put on the spot of having to  
5 forecast just what proportion the public sector is  
6 going to constitute of the gross national product, but  
7 I don't mind putting somebody else on the spot, a very  
8 distinguished professor in the United States, Professor  
9 Hansen of Harvard University, who has forecast that the  
10 public sector of the American economy will probably  
11 constitute in the years to come approximately 50 per  
12 cent of the gross national product. In other words,  
13 50 per cent of goods and services provided in the  
14 United States will be provided for by governments.

15 Well, I don't think there is much point in  
16 wasting time debating the exact proportion, but neverthe-  
17 less I think that this is a pretty good indication,  
18 coming from a very distinguished economist, that this is  
19 to be the trend in the United States, and I have no  
20 doubt that this will also be the trend in Canada.

21 Now, this is why I find certain statements  
22 made by very distinguished sources in Canada -- I think  
23 you had one here yesterday as a matter of fact -- I find  
24 it very difficult to accept their reasoning, namely  
25 that the amount of money being spent by governments is  
26 too high. It seems to me that this is going in the  
27 face of facts.

28 COMMISSIONER PERRY: I know there are a  
29 great variety of points of view of that.

30 MR. JODOIN: That is the understatement



1 of the year.

2 COMMISSIONER PERRY: I would like to suggest  
3 again that in your ultimate submission you do try to  
4 assess for us, as far as you can see it, what effect  
5 this development would have on the general productivity  
6 of the economy, and also this other question as to how  
7 the additional revenue requirements can be financed.  
8 In other words, what specific kinds of tax changes  
9 would be possible, or desirable?

10 MR. BELL: Could I answer the first question  
11 that you have put, the effect on the productivity?

12 COMMISSIONER PERRY: If you wish. We are  
13 not looking for ultimate answers at this stage.

14 MR. BELL: Perhaps I could say a few words  
15 on that aspect. I don't think that the trend towards  
16 an increase in the public sector of the economy is that  
17 important with regard to the effect on productivity.  
18 I think what is important is the fact that we are  
19 shifting more and more to service producing industries.  
20 That there is the very strong possibility that produc-  
21 tivity will decline. We know that the highest  
22 productivity industries, of course, have been the goods  
23 producing industries. Now, as the public sector grows,  
24 of course, and involves more and more emphasis on  
25 service producing industries, rather than goods produc-  
26 ing industries, then there is a possibility, a definite  
27 possibility, that our productivity, overall productivity,  
28 will decline. I think, however, that it is very impor-  
29 tant to bear in mind that while productivity may be  
30 declining in this area of the economy, that at the same



1 time productivity in the goods producing sector of the  
2 economy will be going up, and I would suspect pretty  
3 substantially, as a result of automation and other  
4 technological developments. So that consequently the  
5 overall rate of productivity may not decline nearly as  
6 much as some economists seem to think.

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1 THE CHAIRMAN: There may be one or two  
2 questions arising out of this.

3 There must be a point where the public sector  
4 has increased so that it becomes very hard to support  
5 taxation. A large portion of taxation comes from the  
6 private sector; I am not saying it all does, but a  
7 large portion. I suppose that the concern of a good  
8 part of the community with <sup>the</sup> weight of taxation is their  
9 concern that it becomes such that it will eventually  
10 dry up the private sector. Do you think that such  
11 a point of view has any basis in reality?

12 MR. BELL: I would like to differ there,  
13 Mr. Chairman.

14 THE CHAIRMAN: It is not my concept.

15 MR. BELL: This is a very popular concept,  
16 namely, that as the private enterprise base of the  
17 economy declines or as the public sector increases  
18 the actual tax base itself shrinks. Again, of course,  
19 I am indebted not to my own originality in this but to  
20 a very considerable volume of literature which has been  
21 produced on this subject, and the thinking now of more  
22 and more economists today is that this is not a true  
23 concept at all. The reason that it is not a true  
24 concept is that it overlooks the fact that government  
25 investment expenditures are very similar to private  
26 business expenditures in that they create income and  
27 contribute to an expansion of the gross national product.  
28 I think that most economists would agree that government  
29 business investments have to be broken down into two  
30 kinds, two classes of expenditures in the same way that





1 private business expenditures are. For example,  
2 private business expenditures are known as two kinds,  
3 the utility-creating expenditures and the efficiency-  
4 creating expenditures. The utility-creating expenditures,  
5 of course, involves any business, it might involve the  
6 building of additional plants, whereas the efficiency-  
7 creating expenditures, investment kind of expenditures  
8 of this nature would involve improving the productive  
9 process. The same thing applies in a case of  
10 government expenditures, and I think that the tendency  
11 of some to draw a distinction between the two is not  
12 valid. Whether it is an investment in playgrounds  
13 or in swimming pools, things of that kind which most of  
14 us may not regard as particularly productive, neverthe-  
15 less, they are productive in that they do contribute  
16 to an expansion of income.

17 On the other, the so-called efficiency kind  
18 of expenditures being made by government is now being  
19 increasingly recognized as being very important as the  
20 source of economic growth, and there has been very  
21 considerable work done on this, particularly by American  
22 economists. They have established, for example, that  
23 over a period of time, over a period of a number of years--  
24 one period, for example, was from 1917 up until some  
25 recent year, I forget what year exactly -- they have  
26 established the fact that the average annual rate of  
27 increase in productivity has to a large extent been  
28 the result of this kind of efficiency expenditures made  
29 by governments, namely, in education, in health and the  
30 welfare of the workers, the whole idea being that if you



1 have a more highly skilled, more highly educated labour  
2 force, the effect of increasing productivity will be  
3 very much stronger. Professor Schultz in the United  
4 States claims that a considerable part of the increase  
5 in productivity has not been the result of investment  
6 in tangible capital or not even the result of labour  
7 investment but the result of intangible capital.

8 So I think it is a great deal of simplification  
9 and misleading to draw this distinction, as some do,  
10 between the effect of government expenditures and the  
11 effect, on the other hand, of private business  
12 expenditures.

13 COMMISSIONER GRANT: Mr. Bell, with the noted  
14 increase in trend towards the public sector and services  
15 which it administers, would you have any observations  
16 to make as to the manner in which those services may  
17 be carried out with a view to obtaining as high a degree  
18 of efficiency as we would like to see?

19 MR. BELL: Yes. I think it is very difficult  
20 to be very specific on this, of course, because one  
21 would have to indicate the kind of services one has  
22 in mind. But I think that the kind of services which  
23 we are headed towards are the kind of services which  
24 will fall into two categories, one that can be success-  
25 fully administered or run by private business but an  
26 increasing proportion of services which cannot be as  
27 efficiently operated by private business as by govern-  
28 ment. This, of course, is precisely the reason why  
29 this whole matter of the increase in the public sector  
30 is so important, because if it wasn't for that reason,



B-4

1 if these services could be conducted just as efficiently  
2 by private business then, of course, the whole question  
3 of the increase of the public sector relative to the  
4 private sector wouldn't bother us at all, it would  
5 be a purely academic issue. There are many vocational  
6 services, educational services which play an extremely  
7 important part and will even play a greater part,  
8 and these can only be done on the part of governments.  
9 I don't think there is any issue on that.

10 Now, in addition to that, there is the  
11 question of the training, retraining of members of the  
12 labour force to equip them with the necessary skills  
13 to meet the technological requirements, accelerated  
14 technological requirements, and this will to a very  
15 large extent fall on governments. These are the kinds  
16 of services, also recreational services, which are  
17 playing a larger part in the thinking of the social  
18 scientists. Most of these will also fall under the  
19 category of a government or governments, these other  
20 things which most seem to think can best be undertaken  
21 by governments rather than by private business.

22 COMMISSIONER GRANT: In the brief which you  
23 will be presenting at a later date, do you think that it  
24 would be a matter worthy of thought as to whether this  
25 money which will be spent by governments should be spent  
26 by way of government grants in the majority or under  
27 direct government administration? Now, I realize that  
28 you cannot draw a definite line, but I would like to think  
29 that you could submit us some information as to how this  
30 might balance.



B-5

1 MR. BELL: Surely. I think possibly there  
2 that I may have created the wrong impression. I  
3 don't mean that services provided by governments will  
4 necessarily be created by governments; in most cases  
5 they will not. Governments now are providing a number  
6 of services, but they are not responsible for the  
7 creation of the services. Governments now are providing  
8 a lot of goods, but in most cases goods are not being  
9 created by governments but by private enterprises.  
10 Most of the services will still be created by private  
11 undertakings but will be provided by governments,  
12 through government finances. This is the crucial  
13 question in this whole situation.

14 COMMISSIONER PERRY: Mr. Bell, I might put  
15 this proposition to you. Your point of view seems  
16 to be more that of a sociologist or a historian who is  
17 looking at this as an inevitable future develop-  
18 ment rather than that of an economist who might  
19 argue that this is the sort of thing that has to be  
20 done with a view to economic growth.

21 MR. BELL: No, as a matter of fact, the  
22 second point is extremely valid. As a matter of fact,  
23 I think the second point is even more valid in our  
24 thinking, certainly in the short run, because it will  
25 certainly have to be through the expansion of services  
26 that we will find necessary employment outlets. These  
27 outlets will not be found in the goods-producing sector  
28 of the economy. Already, as a matter of fact, we don't  
29 have to look to the future, we only have to look behind  
30 us. Fewer and fewer workers have been producing more





B-6

1 goods.in our manufacturing industries or in our  
2 industry as a whole and, consequently, if we are to  
3 provide employment for our fairly rapidly expanding  
4 labour force and also accommodate those who are being  
5 displaced for technological reasons in industry, it  
6 means they will have to find employment in service  
7 industries, which has been taking place at a fairly  
8 rapid rate over the past few years, but not at  
9 sufficiently a rapid rate. That is why we have un-  
10 employment today.

11 THE CHAIRMAN: Of course, there are  
12 structural reasons. Certainly I think we are all  
13 aware of the shortages of available social workers,  
14 school teachers, nurses, perhaps, and the abundance  
15 of people in the less skilled categories. So that a  
16 pretty large proportion of unemployment results from  
17 people not being equipped to take on these tasks.

18 MR. BELL: This plays a certain role,  
19 Mr. Chairman, but I don't think that structural reasons  
20 are the primary reasons for unemployment in Canada  
21 today. I am thoroughly convinced that the main reason  
22 is a lack of effective demand for goods and services  
23 in the economy. I am not contending for one moment  
24 that there would still not be a problem with regard to  
25 those who lack skills, but I think if there were  
26 a substantial increase in the demand in the economy the  
27 unemployment which we have today and in the last few  
28 years would very rapidly vanish.

29 THE CHAIRMAN: You make reference to corporate  
30 income tax, and we have one or two questions with regard



1 to that.

2 COMMISSIONER BEAUVAIS: I have a couple of  
3 points, Mr. Bell.

4 You say that you are concerned about the  
5 possibility that some corporations may shift a  
6 considerable part of their tax obligations to consumers  
7 in the form of higher prices. In your opinion how  
8 is the Commission to determine the extent to which  
9 corporate income tax is passed on to the consumers  
10 by suppliers of goods and services?

11 MR. BELL: As a matter of fact, this was  
12 the kind of question I was wanting to put to the  
13 Commission itself.

14 COMMISSIONER BEAUVAIS: But you have no  
15 suggestions to make.

16 MR. BELL: I am not an expert on the powers  
17 at the disposal of Royal Commissions, but it seems  
18 to me a Royal Commission, if I am not mistaken, does  
19 have the power to solicit this kind of information  
20 from companies. As a matter of fact, any suggestion  
21 I would have to make would be this: I would like to  
22 see the Royal Commission obtain such information, which,  
23 of course, would be obtained anonymously, from some  
24 corporations through the circulation of a questionnaire.  
25 I think very considerable information would be obtained  
26 this way.

27 THE CHAIRMAN: That is a very interesting  
28 point, whether or not one could produce questions which  
29 would produce the kind of answers which would be useful,  
30 and we would hope that you might have some views on that,



1 We can, of course, ask the question as to the extent  
2 to which the price of goods would change with the  
3 alteration of the tax rate. Would you change your  
4 dividend practices if taxes were altered, and so on?  
5 Do you think those kinds of questions would be helpful  
6 to us?

7 MR. BELL: It would require a very con-  
8 siderable drafting of questions, but I am sure you are  
9 quite capable of doing it.

10 COMMISSIONER PERRY: May I ask what assump-  
11 tions as to incidence are made to support the statement  
12 that the corporate tax becomes a regressive sales tax?  
13 This seems to imply some assumptions. Why doesn't  
14 it simply become a proportionate sales tax? Why a  
15 regressive sales tax?

16 MR. BELL: Well, I think what we had in  
17 mind here was that if corporations are able to pass off  
18 to consumers their tax burden or a considerable part of  
19 their tax burden they do so in a very indiscriminate  
20 way, very different, as a matter of fact, from the  
21 administration of the present general sales tax. The  
22 sales tax is certainly not regressive, nearly as  
23 regressive in<sup>that</sup> respect, simply because the law governing  
24 the sales tax makes definite exemptions. But in the  
25 case of corporations which are in a position to pass off  
26 their debt or, rather, their tax obligations to con-  
27 sumers, there is no way of regulating how this is going  
28 to fall on to consumers.

29 COMMISSIONER PERRY: It does involve  
30 assumptions on elasticity of demand for consumer goods.



1 I don't want to press you on this, but I think it is  
2 clear that you have made some assumptions as to the  
3 incidence of the corporate tax.

4 MR. BELL: And to the extent that it can be  
5 passed off. It may not in its entirety be passed off  
6 to consumers; it may be passed off to some extent to  
7 employees as well. It would be very interesting to  
8 know about this distribution as between investors  
9 and shareholders on the one hand and employees on the  
10 other hand. That may be a very difficult question.

11 THE CHAIRMAN: I think quite a few people  
12 have endeavoured to compute that.

13 MR. BELL: Yes.

14 COMMISSIONER BEAUVAIS: I would ask, Mr. Bell,  
15 in connection with the last paragraph in your brief  
16 on corporate income tax, where you say:

17 " We are also interested in knowing  
18 whether the dividend tax credit has served  
19 another purpose for which it was ostensibly  
20 introduced, namely, to induce Canadians to  
21 invest in taxable Canadian corporations."

22 Again I would ask what are your suggestions?  
23 How do you suggest that the Commission find out the  
24 effect of that?

25 MR. BELL: I don't think the Royal Commission  
26 could find this information out by the procedure which  
27 I suggested for the other matter. This, I think, could  
28 only be found out by the income tax authorities.

29 COMMISSIONER BEAUVAIS: In many cases the  
30 shares are in the names of nominees. It is very





1 It is very hard to find out whether they are Canadians  
2 and non-Canadians and so forth.

3 MR. BELL: Is there not a possibility that  
4 a question could be drafted in the tax forms which  
5 go out to Canadians for the purpose of eliciting  
6 information? I am not saying this would be a fool-  
7 proof method by any means, but it seems to me that  
8 this would be the most effective way of ascertaining  
9 information.

10 COMMISSIONER BEAUVAIS: Don't you think that  
11 dividend credit tends to increase the desire to buy  
12 Canadian shares?

13 MR. BELL: I have seen this denied by  
14 certain economists. I don't know the reason for denying  
15 it. I think the 20 per cent tax credit, which I  
16 think is a very generous one, would certainly induce  
17 Canadians to invest in Canadian tax-paying corporations,  
18 but there will be other factors which outweigh this.

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1 COMMISSIONER BEAUVAIS: But don't you think  
2 that if the dividend tax credit is increased it will  
3 decrease to some extent the double taxation?

4 MR. BELL: I am sorry, I did not understand  
5 you.

6 COMMISSIONER BEAUVAIS: This 20 per cent tax  
7 credit decreases to some extent the effect of double  
8 taxation.

9 MR. BELL: The point in my mind is that the  
10 question of double taxation is only an issue if corpora-  
11 tions cannot pass off the tax burden. Certainly to the  
12 extent that they pass off the tax burden then the ques-  
13 tion of double taxation certainly arises.

14 COMMISSIONER BEAUVAIS: When you mention in  
15 your brief the possibility that some corporations  
16 may shift a considerable part of their obligations to  
17 consumers in those cases double taxation is decreased  
18 to the extent of the 20 per cent tax credit.

19 MR. BELL: There is still another question  
20 as to whether the 20 per cent tax credit may not be too  
21 much on the generous side. I well recall when the  
22 dividend tax credit was first introduced in 1949 and it  
23 was not 20 per cent at that time, it was 10 per cent.  
24 In 1953, for some reason or other known to the Minister  
25 of Finance, time increased it to 20 per cent. Now,  
26 whether it was necessary to double this at the time I  
27 was very doubtful about it and I am still doubtful. It  
28 seems to me to be a very generous credit to investors  
29 certainly by comparison with other countries.

30 COMMISSIONER BEAUVAIS: My last question is,



1 are there other ways of encouraging Canadian ownership  
2 which should be investigated by the Commission?

3 MR. BELL: I do not know. I think this is  
4 the kind of question which would more appropriately be  
5 put to the investors themselves. It seems to me that  
6 the tax credit as it now stands would be a very substan-  
7 tial inducement. I could not think of why it would be  
8 necessary to offer any other inducement.

9 COMMISSIONER BEAUVAIS: Thank you.

10 COMMISSIONER WALLS: Mr. Bell, I would like  
11 to jump into a question regarding personal income tax.  
12 Now, you have indicated a preference for the progressive  
13 rate of personal income tax and yet you also bring out  
14 one of the effects of the progressive rate, that it is  
15 a widely held view that the persons in high tax  
16 brackets are in the best position to shift the tax  
17 elsewhere. Now, the implications of that rumour could  
18 have quite an effect on any tax structure that may be  
19 established. Have you any means of substantiating  
20 that that is in effect correct or could you even suggest  
21 how the Commission could check as to how the people in  
22 that tax bracket can minimize or reduce the tax?

23 MR. BELL: It has been a widely held  
24 assumption here and also in other countries, as a matter  
25 of fact, this has been a subject of very considerable  
26 discussion in the United States also recently with the  
27 high tax rates, comparatively high rates. The highest  
28 at the present time under our Act is 80 per cent, it  
29 runs from 11 per cent at the bottom to 80 per cent at  
30 the top, and virtually no one pays these high tax rates.



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1 In other words, there is a very considerable difference  
2 between such rates and the actual effective tax rate  
3 that Canadian taxpayers pay with the various exemptions  
4 and also with other dodges, if I could use that word.  
5 I do not mean to use this word in the sense that such  
6 dodges are illegal because they are not necessarily  
7 illegal at all. The fact is, though, that at least this  
8 is a widely assumed fact that the effective tax rate  
9 paid by any Canadian falls considerably short of the  
10 top tax rates set up in the Income Tax Act.

11 Now, I think that if this is the case as it  
12 would appear to be the case I think that your Commission  
13 would be rendering a very great service if it would find  
14 out just how it was possible to plug these loopholes  
15 that exist that enable taxpayers to avoid rates set out.  
16 It may well be, as a matter of fact, that the tax rates  
17 at the higher income levels are too high to be effective.  
18 After all, there is no point in having high tax rates  
19 set out at 80 per cent if they are purely fictional; I  
20 would much prefer that some means be found for getting  
21 as much tax, income tax, as possible and avoiding finding  
22 some means or ways of eliminating tax burdens at these  
23 high rates.

24 In other words, what I am primarily interested  
25 in is what is the effective tax rate? What the effective  
26 tax rate should be you could follow through and try to  
27 find a means of trying to collect that effective tax  
28 rate.

29 COMMISSIONER WALLS: So your recommendation  
30 is rather that we should look into the machinery that is





1 available to people with high tax rates, cutting the  
2 maximum tax rate rather than lending a high tax rate  
3 to being misused, is that right?

4 MR. BELL: Yes, primarily.

5 COMMISSIONER WALLS: I am a little sceptical  
6 of these rumours because going to the other side of the  
7 economy I constantly hear where farmers do not pay their  
8 full taxes and I question some of these so-called rumours.

9 MR. BELL: I think it is just not in the  
10 category of a rumour, it is generally very widely  
11 assumed. As a matter of fact, the literature that  
12 exists on this subject here and in the United States  
13 would indicate that nobody even takes issue with this  
14 assumption.

15 THE CHAIRMAN: Are you not drawing conclusions  
16 in Canada because of the United States? Certainly these  
17 statements have been made in the United States by fairly  
18 senior people, but I am not sure the statements have been  
19 made in regard to Canada. It may be, I do not know.

20 MR. BELL: Well, the United States, of  
21 course, has received a lot of publicity on this matter  
22 recently because of the changes in their tax rates,  
23 what can be claimed as deductions and what cannot be  
24 claimed. That is why I refer to the United States.  
25 We have not done that here, but it seems to me that  
26 perhaps the time has come when we ourselves should  
27 follow the example set by the United States in this  
28 respect and find out if these widely held assumptions  
29 are correct.  
30



1 THE CHAIRMAN: Perhaps so. Of course, I  
2 think you must remember that there may be more reason  
3 for this being said in the United States in view of  
4 their generous exemptions which it has recently been  
5 pointed out have in fact reduced the personal income  
6 tax payment by something like 10 per cent, whereas we  
7 do not have such exemptions in this country. I have no  
8 idea what the average reduction would be.

9 MR. BELL: No, but at the same time we do  
10 have business expense accounts, for instance. We have  
11 other means of providing income to individuals, senior  
12 employees of corporations, through stock option deals  
13 and so forth which are not subject to the income tax  
14 rates. Those are the things that we have in mind and  
15 we think this would be a very profitable area to  
16 explore.

17 COMMISSIONER PERRY: I do not question your  
18 motives here but are you speaking primarily out of a  
19 sense of inequity in making this proposition or  
20 because there is a substantial amount of revenue which  
21 is being lost to the treasury that could be recouped?

22 MR. BELL: I think the matter of equity is  
23 very important in this because obviously if people in  
24 our income brackets are able to avoid corresponding  
25 tax rates then obviously this makes the income tax  
26 less progressive than it would appear to be on the  
27 surface. That, I think, is extremely important. Also,  
28 and perhaps I have in mind again going back to our  
29 earlier discussion, and that is there is going to be  
30 a greater need for public revenues in order to finance



1 the things that the public seems to want. Consequently,  
2 if there are means of obtaining more revenue by plugging  
3 these loopholes then I think this should be done.

4 THE CHAIRMAN: We certainly very much agree  
5 with you. In fact, our instructions are to proceed to  
6 draw attention to any loopholes and so recommend. But,  
7 I think it should be noted in what you have to say that  
8 when one mentions 80 per cent on \$400,000 and over, that  
9 is a marginal rate of tax and the rate of tax on the  
10 full income would be about 67 per cent. If one goes  
11 to the 60 per cent on \$60,000, the effective rate would  
12 be about 45 per cent.

13 COMMISSIONER BEAUVAIS: But it applies to  
14 very few Canadians.

15 THE CHAIRMAN: I would certainly think so  
16 from public figures that we have noted that there are  
17 not many Canadians with an income in excess of \$100,000.

18 COMMISSIONER BEAUVAIS: Five hundred or so,  
19 I think. Mr. Bell, I have another question which is  
20 not in your brief but I would like to have your opinion  
21 on it. To what extent does the present personal income  
22 tax system affect the individual's choice of occupation?

23 MR. BELL: Well, this of course is very  
24 difficult to answer but I would think that, and I  
25 presume you have in mind the matter of incentive, how  
26 incentive could be affected by the income tax rates.  
27 I would think here again I have to lean on what has  
28 been written on the subject by other sources. There  
29 seems to be a fairly substantial consensus that present  
30 tax rates are not serving as a disincentive; there is



1 no evidence of this. What kind of evidence, for  
2 instance, could one look for? In our society everybody  
3 who has an opportunity really does want to work <sup>and</sup> this  
4 I am absolutely convinced of. I do not think that --  
5 well, certainly from what we know, I personally do not  
6 know and have never come across anybody else who has  
7 known anybody who has voluntarily refused to work  
8 simply because of the tax rate. There may be certain  
9 cases, undoubtedly there are certain cases of indivi-  
10 duals who perhaps will not put forth an extra amount of  
11 effort simply because they feel that extra amount of  
12 effort is going to be drained away through taxes. I  
13 would think these are marginal cases and certainly  
14 very much in the minority.

15 COMMISSIONER BEAUVAIS: But has that a  
16 significant effect on immigration, do you think?

17 MR. BELL: No, I do not think so, for the  
18 simple reason that our tax rates are certainly no worse  
19 from that standpoint from the tax rates in the United  
20 States. As a matter of fact, they are less than in  
21 the United States. The top tax rate in the United  
22 States is 91 per cent now, if I am not mistaken, which  
23 is about eleven percentage points higher than ours.

24 COMMISSIONER BEAUVAIS: What about the  
25 European immigrants?

26 MR. BELL: Coming from Europe to Canada?

27 COMMISSIONER BEAUVAIS: Yes.

28 MR. BELL: No, I would not think so either  
29 because the tax rates in the various western European  
30 countries are on the whole, as a matter of fact, somewhat





1 higher than ours.

2 COMMISSIONER BEAUVAIS: Thank you.

3 THE CHAIRMAN: Do you think that there are  
4 people seeking positions where the remuneration consists  
5 partly of gratuities, taxi drivers perhaps, who find  
6 because of the difficulty of policing that kind of  
7 income that those jobs are more attractive than those  
8 jobs which do not contain an element of gratuities?  
9 Have you observed anything in that area?

10 MR. BELL: No, as a matter of fact I cannot  
11 think of anybody who has ---this is no slight on taxicab  
12 drivers -- I cannot think of anybody who is sufficiently  
13 skilled and educated to take on a position at higher  
14 remuneration even though it is going to be subject to  
15 the income tax rates not taking on that position in  
16 preference to work such as a taxicab driver or a waiter  
17 or waitress in a restaurant simply because the gratui-  
18 ties they receive, while supposedly subject to income  
19 tax, to a point are not.

20 THE CHAIRMAN: Thank you.

21 COMMISSIONER MILNE: Mr. Bell, I was going  
22 to ask you, is there something under the present tax  
23 system affecting the employees' incentive to work? Now,  
24 I notice particularly when you were speaking to Mr.  
25 Beauvais that you covered this point in that you believe  
26 that this is possible, not just in marginal cases.  
27 Now, you will understand possibly through other channels  
28 this has come to our attention, it has been directed  
29 as such certainly, that is, not just as  
30 marginal cases. Do you think this is an area that the



1 Commission should devote some study to, that is, the  
2 incentive to work? I think you said that you found  
3 that most people are willing to work and accept that  
4 opportunity when it is presented. Now, I think we are  
5 thinking rather possibly of more than the opportunity to  
6 work, rather of working a little more.

7 MR. BELL: Well, our labour force can be  
8 broken into three categories: those who earn wages,  
9 those who earn salaries and those who earn dividends.  
10 They are the usual categories of whatever the labour  
11 force can be broken down into. As far as those who  
12 receive wages are concerned, I do not think there is  
13 any need for inquiring into the effect of taxes on  
14 their incentive to work, they either work or they are  
15 just left out in the cold, they have no choice.  
16 Certainly the tax factor is not even operative with  
17 this large area of the labour force. Again, there may  
18 be marginal cases but I think again these marginal  
19 cases would be very, very few in number. As far as  
20 those who are receiving salaries are concerned, if you  
21 consider those in top positions, I do not think the tax  
22 factor there would be particularly operative either.  
23 There are many more things than income that motivate  
24 people in these positions. I think if you increased  
25 taxes, for instance -- I am not suggesting this -- if  
26 you increased the tax rate on executives in corporations  
27 I do not think for one moment those executives are going  
28 to do a less efficient job than they were doing before.  
29 After all, this is a matter of prestige and prestige  
30 can be very much more important than pecuniary returns.



1 I think that many corporation executives if they are  
2 almost taxed out of the picture completely would still  
3 continue as long as they could afford it. These people  
4 would still continue to do a job as good as possible  
5 because it is a matter of pride and prestige with them.

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1 As far as people receiving dividends are concerned,  
2 I don't think that the tax is operative there either.  
3 In the first place, the other factors there are extremely  
4 more important, whether the investment that they make,  
5 and that they anticipate is going to yield them a good  
6 return, and, as we were just discussing a moment ago,  
7 Canadian investors have the advantage of the 20 per  
8 cent dividend tax credit.

9 I am not suggesting that the Commission should  
10 not make an inquiry into this area, but in my own  
11 personal opinion --

12 THE CHAIRMAN: One employer told us yesterday  
13 that the female employees computed very carefully  
14 the net margin of return that they got, and they found  
15 it very unattractive to work overtime, and I have known  
16 senior people who have certainly increased their  
17 holidays, because they have indicated that the marginal  
18 return to them was not such as to cause them to prefer  
19 to work rather than to take a holiday. What the  
20 impact of that is it is very difficult to know, but  
21 I just would like to say that the impact is of course  
22 there.

23 COMMISSIONER PERRY: I think Mr. Bell would  
24 agree that we would not be fulfilling our terms of  
25 reference if we limited the studies of the personal  
26 income tax to its effect on executives. There are other  
27 elements of employment income which must be looked at.  
28 I am sure you are quite well aware that the range of  
29 fringe benefits available to all employees in industry  
30 which don't come into the tax seems to be increasing from





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1 year to year, that there are a few specific elements  
2 of related employment income, such as workmen's  
3 compensation and unemployment insurance, which are not  
4 now subject to tax.

5 We have no views whatever on these things  
6 at the moment, but they must of course be examined.  
7 Would you care to express any opinion at this time on  
8 some of those matters?

9 MR. BELL: I would like to refer your  
10 question, Mr. Perry, to Mr. Andras here, who is our  
11 social security specialist, and I think he could answer  
12 it.

13 MR. ANDRAS: Well, my expertise is not  
14 the Income Tax Act. So far as I am aware, unemployment  
15 insurance benefits are not taxable. I would merely  
16 point out to you that this type of social security is  
17 a maintenance program. It is at a relatively low ratio  
18 of benefit to previous earnings. At the present time  
19 a claimant with a dependent will receive approximately  
20 50 per cent of his earnings. This is based on a  
21 presumption of need. The Gill Committee has recommended  
22 a higher ratio of 60 per cent, but in any event we  
23 would argue that so low a ratio of benefit should not  
24 be burdened by a tax, which would obviously tend to  
25 reduce its effectiveness.

26 COMMISSIONER PERRY: I am not suggesting  
27 that there are not good arguments. Unfortunately they  
28 might apply equally to a corporation executive living  
29 on deferred compensation.

30 MR. ANDRAS: We have a different approach to



1 executives sir.

2 COMMISSIONER PERRY: But these are areas  
3 which I say we must look at, and I think perhaps what  
4 is of more substance is the fairly massive benefits  
5 now that employees, and I include among those myself,  
6 receive from their employers through plans of one sort  
7 or another which do in effect supplant expenditures  
8 which the employee otherwise would have had to make  
9 out of taxable income.

10 This sort of thing will have to be examined.

11 THE CHAIRMAN: We were discussing, or  
12 mentioning, loopholes a few minutes ago, and one point  
13 you make on page 4 I am concerned about. You suggest  
14 that it would be worth while to determine to what extent  
15 stock options contribute to income tax evasion. Stock  
16 options are something which receive special tax  
17 treatment in the Act, it is clearly written into the  
18 Act, therefore I would doubt if that is what one  
19 generally thinks of in terms of a loophole even, but  
20 how can we connect stock options with evasion?

21 MR. BELL: Yes, I was not thinking of this  
22 in terms of individuals being able to do this through a  
23 loophole in the Income Tax Act. What was in mind here  
24 was the fact that this is a way of giving a remuneration,  
25 income, to those who receive it without that income  
26 being subject to the income tax rates. Now, this is  
27 a very controversial matter, I admit, but it seems to me  
28 that income of this kind should be subject to the normal  
29 income tax rates and not have any special allowance  
30 made for it, as is the case now.



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1 THE CHAIRMAN: Thank you very much. That  
2 straightens out the question in my mind.

3 COMMISSIONER GRANT: Mr. Bell, I think that  
4 you would readily agree that there are two important  
5 factors in the economy to which the wage earner  
6 contributes to a large extent, and that is, I refer  
7 to the building up of savings within a country, and the  
8 consumption factor within the economy.

9 Have you any particular thoughts on the  
10 impact of taxation as it would affect these two  
11 particular factors?

12 MR. BELL: Well, at the present time invest-  
13 ment savings are to a very large extent, as you know,  
14 generated within corporations themselves. They are  
15 internally generated funds, consisting of their  
16 depreciation allowances and --

17 COMMISSIONER GRANT: I was referring to  
18 personal savings.

19 MR. BELL: Although I think the corporate  
20 savings are an extremely important factor in this  
21 picture of savings and consumption. As far as personal  
22 savings are concerned, this gets us back again to what  
23 you have been discussing, the various provisions in  
24 the Income Tax Act, dividend tax credits, and so forth,  
25 which generally help, or greatly assist those who do  
26 the so-called saving in this country.

27 I don't think at the present time that one  
28 could say, for example, that any tax provisions are  
29 reducing the amount of savings to the point where it is  
30 having a detrimental effect on the economy. I would say,





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1 as a matter of fact, at the present time, and I am  
2 speaking now only of the present time, that the very  
3 contrary is the case. That the consumption factor is  
4 the one that needs to be boosted, simply because we  
5 have so much unused industrial capacity, unemployment,  
6 and this is why as a matter of fact I think that the  
7 Income Tax Act itself should be changed, in order to  
8 make it a more effective instrument of fiscal policy  
9 than it is at present. I think that if certain changes  
10 were made in the Income Tax Act that it could increase  
11 consumption for example at the present time. In other  
12 words, it is the consumption factor which I think needs  
13 to be boosted. I don't think we have to worry very  
14 much, again I am speaking of the present time, on the  
15 savings side.

16 THE CHAIRMAN: I wanted to ask whether  
17 Mr. Bell thought that consumption would be more  
18 readily affected by an adjustment of income tax than  
19 by an adjustment of government expenditure at the  
20 present time?

21 MR. BELL: Well, I would think Mr. Chairman,  
22 perhaps I am trying to be rather dogmatic on this point,  
23 but I think that both is required now, both an increase  
24 in production by adjustment in income tax rates,  
25 particularly in the lower income brackets, because those  
26 have a tendency to spend a greater proportion of their  
27 income than those in higher brackets, for obvious reasons.  
28 But at the same time, again because of the fact that we  
29 do have very considerable unemployment, and considerable  
30 unused industrial capacity, I think that an increase in





1 government expenditures would also be warranted.

2 THE CHAIRMAN: Which of the two do you think  
3 would be more effective, for the same amount of funds?

4 MR. BELL: Well, I think the adjustment of  
5 the income tax rates would have an immediate effect,  
6 whereas an increase in government expenditures would  
7 have an effect over a longer period.

8 COMMISSIONER PERRY: Unless it were done  
9 through family allowances, for example, which would have  
10 an immediate effect.

11 COMMISSIONER WALLS: To follow up that  
12 question and your answer, I take it from this that  
13 in the Commission giving study to any changes in tax  
14 rates that you would recommend that greater emphasis  
15 be placed on income tax, as opposed to say sales tax?

16 MR. BELL: You are thinking now, sir, in  
17 terms of raising government revenue, are you?

18 COMMISSIONER WALLS: That is correct.

19 MR. BELL: I think that the whole question of  
20 commodity taxes is becoming more and more important.  
21 As a matter of fact, this is precisely why we are  
22 concerned with making the most important excise tax,  
23 the general sales tax, I should not say more progressive,  
24 but less regressive than it is. It seems to me that  
25 in order to finance the kind of public services which  
26 we were discussing a little while ago that greater and  
27 greater use is going to have to be made of commodity  
28 taxes. Now, this is again not only a trend that has  
29 been developing in Canada, but also a trend that has been  
30 developing in the European countries, and also in the



1 United States.

D-7 2 THE CHAIRMAN: Mr. Walls, I think we might  
3 break off now for about ten minutes. I hope you  
4 can give us a little more time after the break. We  
5 would like to go on to about noon if that would suit you.

6 We stand adjourned.

7 ---Recess.

8  
9 THE CHAIRMAN: The hearing will now proceed.  
10 Mr. Walls, I believe you were going to continue with  
11 some questions?

12 COMMISSIONER WALLS: Yes, I would like to  
13 continue one or two more questions with respect to sales  
14 tax.

15 I was quite interested in your agreement  
16 that perhaps increased emphasis would be needed on  
17 commodity taxes, and in recent studies in the United  
18 States they have been able to show that with appropriate  
19 exemptions that their sales taxes cannot be considered  
20 as regressive. Now, that is why I am wondering how  
21 you arrive at the fact that our Canadian sales tax,  
22 with the very heavy amount of exemptions that we have  
23 at the present time, is considered by you as being  
24 regressive.

25 Do you know of any studies, or has your  
26 organization carried out any studies as to the re-  
27 gressive effects, if any, of our Canadian sales tax?

28 MR. BELL: I appreciate that our sales tax  
29 does exempt some very important articles. It is  
30 well known as a matter of fact that implements that are



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1 used in primary industry, farming, manufacturing,  
2 lumbering, and so forth, are exempt. Foodstuffs are  
3 all exempt. But, at the same time, consumer goods,  
4 household furnishings, semi-durable consumer goods,  
5 and so forth are subject to the general sales tax levy,  
6 and it is because of the growing importance of our  
7 commodity taxes, and particularly the general sales  
8 tax in producing revenue for governments that it seems  
9 to me that whatever can be done to make it more  
10 progressive than it is would be certainly a step in the  
11 right direction.

12 Now, whether the vague suggestion that we  
13 have put out, namely that some system of graduated rates  
14 might be feasible or not, I don't know quite frankly,  
15 but what I do know is that in the past this has been used.  
16 Years and years ago, and Mr. Perry as a matter of fact  
17 would be able to comment on this much better than I,  
18 because in this particular matter I am indebted to his  
19 own book on the subject and his appraisal of the history  
20 of commodity taxes. In other words, I don't think that  
21 the idea itself of graduated rates is anything novel.  
22 This has been done in the past, and it seemed to us that  
23 some system of graduated rates now might be in order,  
24 in order to make it less regressive, even though, as  
25 you say, and what you say is perfectly correct, there are  
26 many important items that are certainly exempt from the  
27 sales tax.

28 COMMISSIONER WALLS: In effect though you have  
29 right now a form of graduated rates by the combination  
30 of excise tax, as well as sales tax, on certain items, the





1 10 or 15 per cent plus the 11 per cent. Now, if you were  
2 to put in a graduated scale, what factors would you use  
3 in deciding which commodities should carry the greater  
4 or the lesser tax? I mean, what would you use as your  
5 medium of arriving at what products should carry heavy  
6 or low taxes?

7 MR. BELL: This is a very important question,  
8 and I would reply by saying that considerable research  
9 would have to be undertaken to find out what the  
10 corresponding relationship is between the consumer and  
11 the amount of money that he has at his disposal.  
12 In other words his income bracket, and the kind of goods  
13 that he purchases. I think it is a reasonable  
14 assumption to make, for example, that people in higher  
15 income brackets are going to buy certain items which  
16 would be regarded by people in lower income brackets  
17 as luxury items, and it seems to me that those particular  
18 so-called luxury items should be subjected to a higher  
19 sales tax than, for example, things that are bought  
20 practically by all Canadians. Such things as household  
21 furnishings, because no matter what the income bracket  
22 is of the individual Canadian, the chances are that he  
23 is going to buy household furnishings, and the usual  
24 durable consumer goods. This is part of what we  
25 consider an average standard of living in this country  
26 now.

27 COMMISSIONER WALLS: Well, may I take it from  
28 that that if you are going to attempt to get more  
29 revenue from sales tax, then it might be necessary to  
30 actually reduce the number of exemptions, but to make





1 the adjustment then by a graduated scale? Is that  
2 what you have in mind?

3 MR. BELL: Reduce the number of exemptions?

4 COMMISSIONER WALLS: Yes. I mean, you have  
5 already stated that you expect to raise more revenue.  
6 Now, you can't have more exemptions and do that at the  
7 same time, can you?

8 MR. BELL: Well, I wouldn't suggest that  
9 the present number of exemptions be reduced. I  
10 think that the items that are exempted at the present  
11 are very important, not only from the consumer's  
12 point of view, but also from the producer's point of  
13 view.

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1 Consequently, I personally have no issue with that  
2 aspect of our sales tax. But it is quite true that if  
3 sales tax and other commodity taxes are to be relied  
4 on more and more for government revenues, as many who  
5 have made a serious study of this matter tend to think,  
6 then it is going to be necessary to impose sales tax  
7 on other items. Now, the other items may be items which  
8 do not exist at the present time. For example, it has  
9 been suggested that if the public wants certain services  
10 which are provided by governments, then these services  
11 will have to be taxed to a considerable extent by  
12 imposing a tax on private goods and services which are  
13 considered to be of a less important nature. Less  
14 important is determined by what the public wants.  
15 That is what I have in mind.

16 THE CHAIRMAN: We have had the suggestion  
17 that some services might be taxed, broaden the base of  
18 the sales tax. We have heard very little as to which  
19 services may be taxed. You say those of a less  
20 important nature.

21 MR. BELL: Yes, what have been referred to  
22 as gadgets which are not considered to be as important,  
23 not essential services, and, consequently, these  
24 particular gadgets would bear the brunt, so to speak,  
25 of the sales tax and to finance important services that  
26 the public was demanding.

27 COMMISSIONER PERRY: May I ask one further  
28 question, just to clarify? You are thinking here  
29 solely in terms of various rates according to the kinds  
30 of goods involved, not according to the position of the



1 purchaser, because there are quite elaborate schemes  
2 which have been developed which amount to almost a  
3 counterpart of income tax but related to purchases,  
4 graduated to the purchases of the individual or the  
5 family, varying with the level of their income. It is  
6 almost a counterpart of the system of income tax but  
7 applying to purchases, the rate going up higher as  
8 the income goes up. That isn't what you have in mind  
9 here; it is simply a selective process of taxing those  
10 goods at higher rates which are most likely to be  
11 purchased by the people having higher income?

12 MR. BELL: Yes, precisely. I think that there  
13 would be considerable equity in this kind of approach,  
14 and at the same time it would be less difficult from  
15 the administrative point of view.

16 There are a number of other approaches which  
17 you have just suggested, but, quite frankly, I don't  
18 see how possibly they could be administered. They  
19 appear more attractive from the equity point of view.

20 COMMISSIONER PERRY: One problem about these  
21 higher taxes is that they quite often throw people out  
22 of work, in the factory in which these particular goods  
23 are being made.

24 COMMISSIONER WALLS: Mr. Bell, what evidence  
25 do you have that the pyramiding of federal <sup>sales</sup> tax as it  
26 is at the manufacturers' level is a significant  
27 factor?

28 MR. BELL: Well, we know that the very process  
29 itself involves a certain pyramiding effect, and to the  
30 extent that the pyramiding effect may be substantial,



1 this would obviously result in a pretty considerably  
2 increased price to the consumer buying the article in  
3 question. As a matter of fact, recently we suggested an  
4 inquiry into this precisely to determine whether the  
5 effect, the pyramiding effect is significant or not  
6 and, if it is significant, to ascertain whether another  
7 method of collecting the sales tax could be found.

8           You asked me, sir, in your question a moment  
9 ago whether there was any research study made in taxation.  
10 I know of only one, and I think probably it will be  
11 outdated now, made by a Dr. Due of an American  
12 university, who made a special study of Canadian sales  
13 tax. A number of years ago I studied his findings. He  
14 did find that the incidence of general sales tax was  
15 heaviest on the lower income brackets, that is lower  
16 income brackets up to about \$5,000 or \$6,000 at the  
17 time, I believe.

18           COMMISSIONER WALLS: I think you have answered  
19 the question I was going to put to you, namely, that in  
20 your opinion should the Commission give study to  
21 alternative levels which would avoid that pyramiding.

22           MR. BELL: Yes, of course, it is feasible to  
23 do so. There are a number of alternatives one could  
24 think of, offsetting factors. There are a certain  
25 number of factors which militate against it and it  
26 would be preferable not to do so. I have in mind the  
27 tax in France.

28           COMMISSIONER WALLS: The one based on the  
29 percentage of profits?

30           MR. BELL: No, the value added tax, between





1 what the manufacturer pays for his materials and the  
2 sales value of the product.

3 THE CHAIRMAN: Do you have a preference to a  
4 sales tax at the retail level where the consumer knows  
5 the amount of the tax?

6 MR. BELL: A retail sales tax would be  
7 preferable from the point of view of eliminating the  
8 pyramiding effect, of course, of the tax imposed at  
9 some distance from the level at which the consumer  
10 buys the articles. At the same time I can appreciate  
11 the administrative difficulties involved. The chief  
12 advantage, I would think, of imposing the sales tax at  
13 the manufacturers' level is that, to use Mr. Perry's  
14 own words in his own book, many fewer outlets to collect  
15 the sales tax, and this would seem to me to make the  
16 collection very, very much more practical than at the  
17 retail level. But there again I am not certain that  
18 other factors might not warrant having a sales tax  
19 collected at the retail level.

20 For example, if the sales tax is extended to  
21 services, if it is to be imposed on services, then  
22 obviously sales tax would have to be imposed at the  
23 retail level.

24 THE CHAIRMAN: The incidence of sales tax is  
25 most uneven levied at the manufacturers' level, because  
26 by the time he gets through it varies considerably in  
27 relation to the goods he is buying, depending upon the  
28 number of steps through which it has passed and the markup.

29 MR. BELL: Yes, precisely; markup is very  
30 important in determining what the ultimate effect is



1 going to be.

2 COMMISSIONER WALLS: I think that is all.

3 THE CHAIRMAN: We move on to old age security  
4 tax. I think we have pretty well taken care of the old  
5 age security tax.

6 You indicate that you would like to see a  
7 study made to ascertain the practicability of a capital  
8 gains tax. We are wondering why you suggest such an  
9 investigation. Presumably it is because you think that  
10 such a tax might be useful in Canada. Is that correct?

11 MR. BELL: Yes.

12 THE CHAIRMAN: Do you believe that the dis-  
13 tinction at the present time between income and capital  
14 gains is a meaningful distinction?

15 MR. BELL: This, of course, has been the  
16 subject of very lengthy discussions and much has been  
17 written on it. It seems to me that if it is possible,  
18 and I don't see why it would not be possible, to  
19 include all capital gains as income within the Income  
20 Tax Act rather than having a special capital gains tax  
21 act, it seems to me that this would be the best way  
22 of going about it.

23 Now, I am not a lawyer, but I have read  
24 contributions made by lawyers in trying to differentiate  
25 between what is income as such and what is capital gains,  
26 and I must confess that the more I read about the dis-  
27 tinctions they make the more confused I get. But the  
28 usual conception of a capital gain, certainly in the  
29 Canadian sense, is a non-recurring profit or non-  
30 recurring income not associated with regular employment



1 or regular business. I suppose there is some merit  
2 in making this kind of distinction. I am not sure,  
3 though, from the overall picture of trying to bring  
4 about some kind of order in this tax field, whether  
5 that kind of distinction should be made. In other  
6 words, why not make capital gains, even though they are  
7 of a non-recurring kind, subject to normal income tax  
8 rates as well. I am not an expert in this, but I think  
9 this is the kind of approach that the United States has  
10 taken more or less.

11 THE CHAIRMAN: That is correct; and, of course,  
12 it is not the position that the United Kingdom takes.  
13 We sit between the two.

14 MR. BELL: Yes.

15 THE CHAIRMAN: And the distinction to be made  
16 is rather difficult, but it may not be <sup>as</sup> difficult as  
17 the administration of a tax which would include taxation  
18 of capital gains. They have to be determined, they have  
19 to be measured, and it would be grossly unfair not to  
20 provide an average.

21 MR. BELL: I would agree with that, simply  
22 because a capital gain may be made over a period of  
23 years and not in the year to which it is subjected to  
24 tax.

25 COMMISSIONER GRANT: On the question of  
26 co-operatives, concern is expressed about accusations  
27 from certain quarters that co-operatives are not paying  
28 their "fair share" of taxation, and you believe that  
29 these accusations are unjustified. Would you differen-  
30 tiate between the kinds of co-operatives, that is



1 producer and consumer co-operatives, in your thinking?

2 MR. BELL: Could I make a statement on this  
3 and then I would like to refer the matter to Mr.  
4 MacDonald, who is knowledgeable on these matters.

5 Our reason for making reference to  
6 co-operatives was simply with a hope that the Commission  
7 would provide a certain amount of public education with  
8 regard to the role of co-operatives in our society. We  
9 felt that this was necessary, that this is necessary,  
10 because there seems to be a considerable amount of  
11 genuine misunderstanding with regard to co-operatives.  
12 The accusation that is frequently made is that  
13 co-operatives are escaping their rightful share of  
14 taxes, that co-operatives are the same as any other  
15 business enterprise and therefore should be subjected to  
16 corporate tax rates. Co-operatives are, as a matter of  
17 fact, subjected to tax rates, very much so, but I think  
18 that the issue which is not clearly understood is the  
19 fact that co-operatives differ in the sense that they  
20 have their so-called dividends, that this is something  
21 dissimilar from anything that is associated with  
22 private businesses, and that therefore this must be  
23 treated differently from private businesses.

24 So it is only our hope in drawing this to  
25 your attention that out of your deliberations and  
26 inquiry a better understanding of co-operatives and  
27 the role of co-operatives would be provided.

28 COMMISSIONER GRANT: Thank you, Mr. Bell.  
29 I didn't expect that there would be any great discussion  
30 on the subject this morning, but I am sure that we are





1 very delighted to have your explanations on the  
2 reference to co-operatives as contained in your brief,  
3 and I think you may be sure that this matter will  
4 receive a full airing by the Commission and any mis-  
5 understandings which may exist will be endeavoured to  
6 be cleared up in the public mind.

7 THE CHAIRMAN: Might I inquire, if I under-  
8 stand that correctly, if you are implying in this  
9 statement that you consider that co-operatives now pay  
10 their fair share of taxes, that they are not being  
11 taxed too much, they are not being taxed too little?  
12 Is that correct?

13 MR. BELL: Yes. I wouldn't want to speak on  
14 behalf of the co-operatives, because I would be speaking  
15 under false pretences in doing that. You will be  
16 having a number of presentations by co-operatives, I  
17 understand.

18 MR. MacDONALD: If I may interrupt, Mr.  
19 Chairman. Our view in this connection is based largely  
20 on the rather intense campaign that has been mounted in  
21 Canada in recent months to tax the surplus earnings of  
22 co-operatives. In our view, the surplus earnings are  
23 only overcharges to the cost of the services themselves;  
24 it is earnings on which they have already paid taxes.  
25 They could just as easily, if they so desire, under-  
26 charge for the services which they are creating and  
27 later pay out of their pockets again the necessary  
28 difference between the undercharge and the actual cost  
29 of providing the goods and services. Therefore we  
30 believe it is entirely inequitable to try to equate



1 them with a private business where goods and services  
2 are supplied for the benefit of an individual or a  
3 corporation.

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1 It would be a form of double taxation obviously if the  
2 overcharge which really apply to this were taxed again.  
3 As Mr. Bell has already said, they do pay all other  
4 forms of taxation that are applicable to other industries  
5 and businesses.

6 THE CHAIRMAN: Thank you, Mr. McDonald. If  
7 we do not enter into discussion with you at this time  
8 on this subject it does not mean we accept the statement  
9 that there is double taxation. As a matter of fact,  
10 there are so many opinions on double taxation in Canada,  
11 I think I am double taxed on my own things but we will  
12 clearly hear a great deal on this subject and we look  
13 forward to it. I think, rather than getting into any  
14 further discussion of the techniques of it now we will  
15 keep it for the full submission and hear about it later.

16 MR. McDONALD: We will be making more  
17 comprehensive suggestions in our major submission.

18 THE CHAIRMAN: Good, I hope so.

19 COMMISSIONER PERRY: I had some questions  
20 on the paragraph headed "Fiscal Policy" but when I look  
21 it over again I find that the discussion up to this  
22 point has anticipated most of them. It is fairly clear  
23 that your basic proposition is that the economy now  
24 suffers from under-consumption and that the federal budget  
25 can make a major contribution to curing that situation.  
26 In a sense this is not a proposition that is new or novel;  
27 the Chamber of Commerce was before us yesterday and in  
28 their annual statement to the government for some years  
29 they have supported the contention of a financial deficit  
30 for this purpose. What really does arise as the issue,



F-2

1 of course, becomes a matter of numbers as the economists  
2 say. We are now in the area of \$600 million or \$700  
3 million a year. What would be the proper size of  
4 deficit under these conditions? Should it be \$1 billion,  
5 \$2 billion? The proposition as such is almost  
6 accepted nowadays and the real question becomes one  
7 of putting a price tag on it. I would suggest if you  
8 could give any elucidation on quantities here it would  
9 be very helpful having in mind that such a figure grows,  
10 the psychological implications become more troublesome  
11 and, no doubt with our recent history, the international  
12 implications too.

13 This brings me to the final paragraph of  
14 this section in which you make a suggestion that if the  
15 adoption of a fixed exchange rate has tied our fiscal  
16 hand, as it were, then some reforms in international  
17 monetary arrangements should be contemplated. You  
18 do not suggest what these reforms might be. Are  
19 you prepared to elaborate at this stage?

20 MR. BELL: Well, we did not suggest that  
21 here simply because this was intended to be a preliminary  
22 submission, more of an outline of what our main sub-  
23 mission would be or what form the main submission will  
24 take. In this connection I would say very briefly  
25 that if Canada feels obligated to maintain a fixed ex-  
26 change rate which she might now feel she has no choice  
27 in the matter but to continue with a fixed exchange  
28 rate, then considering the kind of open economy that  
29 we have which, as we indicated here, we do not think is  
30 at all suitable so we do not think a fixed exchange rate





F-3

1 is at all suitable for this kind of economy. The only  
2 way of overcoming the difficulties this imposed on  
3 ourselves with this fixed exchange rate is to seek  
4 certain monetary, international monetary reforms. Now,  
5 there is nothing novel about this, this has been  
6 suggested by Britain itself, by the British government  
7 and it has been suggested by a number who are closely  
8 associated with the international monetary fund,  
9 academics and so on. Their object is to increase  
10 international liquidity and at the present time there  
11 is definitely a very serious shortage of international  
12 liquidity. Now, with the kind of free exchange rate  
13 that we had several years ago this did not pose itself  
14 as a particular problem but if countries are to have  
15 fixed exchange rates then it means that some pretty  
16 substantial reforms at the international monetary  
17 institutional level is going to have to take place.  
18 A number of proposals, of course, have been made. One  
19 of the best known has been made by Professor Triffin  
20 as you are no doubt aware who has a solution for bringing  
21 about international liquidity. These are matters  
22 we will be very happy to go into detail with in our  
23 main submission.

24 COMMISSIONER PERRY: That is fine, I just  
25 wanted to be a little clearer in my own mind as to whether  
26 it was the liquidity problem that you had in mind here.

27 MR. BELL: Very definitely.

28 COMMISSIONER PERRY: I can see it is.

29 COMMISSIONER GRANT: Mr. Bell, the Estate  
30 Tax Act is a tax issue which has given the Commission



F-4 1 some thought and study, no representation has been made  
2 in the brief?

3 MR. BELL: That is true.

4 COMMISSIONER GRANT: Perhaps you may wish to  
5 make a submission in a later brief or would you like to  
6 make a comment at this time?

7 MR. BELL: In our later submission we may  
8 well have comments but at the present time I would rather  
9 not.

10 THE CHAIRMAN: There is one matter here which  
11 comes to mind: You say the only legitimate objection  
12 that can be raised against deficits is that they are  
13 inflation.

14 MR. BELL: Under certain circumstances but  
15 only under certain circumstances.

16 THE CHAIRMAN: I try now to draw attention  
17 to the solvency of the country and the concern of the  
18 people within the country and the carrying charges, of  
19 course, results from financial insolvency, I think I  
20 am getting outside of what you intended.

21 MR. BELL: No, if I follow you, sir, you are  
22 suggesting perhaps that we have to avoid undertaking  
23 any measures that will bring on inflation and if in-  
24 creased deficits contribute to inflation then it is  
25 going to worsen our international economic position.

26 THE CHAIRMAN: That is not quite what I  
27 intended. I was taking your words which are the only  
28 legitimate objections, and I was thinking there are  
29 other objections to deficits, namely, they can cause  
30 conditions which cause us to raise the interest rate on



F-5

1 government money in order to secure borrowing. They  
2 will, furthermore, cause people outside of the country  
3 to worry about the solvency of Canada and diminish our  
4 own credit and again increase the borrowing charges  
5 on our debt, is that not so?

6 MR. BELL: Well, I think it is important in  
7 discussing the size of our public deficit and, after all,  
8 deficits do contribute to the margin of public debt,  
9 I think it is important to relate the size of our debt  
10 to our gross national product. I think this is something  
11 that is overlooked very frequently by the most  
12 sophisticated speakers on the subject. For instance,  
13 the ratio of our net public debt to the gross national  
14 product in 1949 was about 77 per cent; for 1961 this  
15 had been reduced to a ratio of 35.9 per cent. It is  
16 quite true that the net public debt increased  
17 absolutely but as a proportion of gross national product  
18 it decreased very substantially and it is this latter  
19 calculation that is extremely important.

20 Now, as far as debt charges, this is our  
21 concern. I admit they have gone up very substantially  
22 in the last few years and the reasons they have gone up  
23 I think are simply because, well obviously more  
24 borrowing was necessary in order to cover the deficits  
25 but those borrowings were at a much higher interest  
26 rate than was necessary. Also, the government's  
27 decision to convert a lot of short-term debt to long-  
28 term at higher interest rates also played a very  
29 significant part, I think, in increasing the public debt  
30 charges. In other words, I think our public debt





1 charges have increased all out of proportion to the  
2 actual increase that has taken place in the public  
3 debt itself because of these reasons.

4 COMMISSIONER PERRY: I was hoping the  
5 conversion loan was not going to come up before this  
6 Commission.

7 THE CHAIRMAN: Are there any other questions?

8 COMMISSIONER PERRY: Well, again, we have  
9 been asking all our witnesses so far if they have any  
10 views as to the priorities of objectives that the tax  
11 system should serve. We found, not unnaturally,  
12 that those most directly involved from day to day  
13 stressed certainty, simplicity and clarity; those  
14 with an economic bent tend to dismiss these particular  
15 objectives and emphasize the service of the economy.  
16 This is the kind of thing that is important in a sense  
17 because we should be working by some general guide-  
18 lines. Have you any idea where you would rate these  
19 particular kinds of criteria?

20 MR. BELL: I think it is very difficult to  
21 set these things out according to priority. There  
22 are obviously several very important objectives. There  
23 is one that is very very obvious and that is that  
24 governments need revenue and obviously the tax structure  
25 should serve the purpose of raising this revenue as  
26 efficiently as possible. But, at the same time, there  
27 is another very important objective and that is the  
28 redistribution of income which a tax system should serve.  
29 Of course, there is another one which I do not think  
30 has been used as effectively as it might be and that is





1 as an instrument of fiscal policy. How you arrange  
2 these in priority I do not know, it is very, very  
3 difficult to do and as a matter of fact I could even  
4 say there are certain factors between or among these  
5 objectives.

6 THE CHAIRMAN: Well, we are very grateful  
7 to you indeed for your help this morning. This job  
8 is turning out to be a very pleasant experience for us  
9 when people like yourselves devote your time and  
10 energy in assisting the Commission. We most certainly  
11 look forward to hearing from you more fully in the  
12 autumn. We know that the Congress can speak with  
13 the greatest authority in the country on certain areas  
14 with which we are most concerned and all I want to say  
15 is, thank you very much indeed for your help today.

16 MR. JODOIN: Well, Mr. Chairman, Madam Milne  
17 and other members of the Commission: Certainly in  
18 turn I wish to indicate to you and your colleagues  
19 our appreciation. This preliminary bout was a most  
20 agreeable one, I do not know what the main bout will  
21 produce but certainly you have a general idea of what  
22 our aims and aspirations are in the field. Certainly  
23 the very pertinent questioning here this morning, though  
24 I do not consider myself personally an expert, but  
25 I think they were very pertinent and they will be  
26 explained certainly in more detail. As to what  
27 procedure could be followed, it is not an easy matter  
28 to discuss generally but we will certainly try to make,  
29 first of all, our representation comprehensive and  
30



1 certainly indicate what our intentions are. Furthermore,  
2 we wish you very good luck in your work.

3 THE CHAIRMAN: Thank you. Mr. Bennett?

4 MR. BENNETT: Mr. Chairman, at 2:15 we  
5 have the Canadian Institute of Chartered Accountants.

6 THE CHAIRMAN: Very well, we stand adjourned.  
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10 ---Luncheon adjournment.  
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Thursday, April 18, 1963.

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---Upon resuming at 2:15 p.m.

THE CHAIRMAN: Are we all set to proceed  
Mr. Secretary?

THE SECRETARY: Mr. Chairman, ladies and  
gentlemen, we have this afternoon with us the Officers  
of the Special Taxation Committee of the Canadian  
Institute of Chartered Accountants. Mr. A.J. Little  
is Chairman of this Committee, and will be speaking  
to the brief, which I will now enter into the record  
as Exhibit No. 8.

EXHIBIT NO. 8: Submission of the  
Canadian Institute  
of Chartered  
Accountants.

SUBMISSION OF THE  
CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

APPEARANCES:

A.J. Little,  
R.D. Thomas,  
Bruce Philip  
F. Gerald Townsend,  
W.A. Simington,  
R.A. Lachance

THE CHAIRMAN: Mr. Little and gentlemen,  
we indeed greet you to this afternoon's session. You  
will observe that this Commission is well larded with  
chartered accountants. We have been very much  
impressed with what you have put before us, and we look



1 forward to this afternoon with a little bit of  
2 anticipation.

3 It is usually our practice to offer you the  
4 opportunity to add to the submission. We think it  
5 unnecessary to read it of course. We have all read  
6 it already, and we assume that you have all read it too,  
7 but if you care to summarize and amplify as you please,  
8 we will have a few questions we will be very glad to  
9 put to you.

10 Mr. Little, are you speaking for this group?

11 MR. LITTLE: Yes sir.

12 THE CHAIRMAN: You could introduce them to  
13 us.

14 MR. LITTLE: First of all, I would like to  
15 say to you, Mr. Chairman, on behalf of the Council of  
16 the Canadian Institute of Chartered Accountants how  
17 very much they appreciate the privilege of being  
18 invited to take part in these preliminary sessions.  
19 We consider it a compliment to the Institute and those  
20 of us who are taking part on behalf of the Council  
21 consider it a privilege.

22 With us today at this table, on my extreme  
23 right is Mr. R.D. Thomas, who is the Executive  
24 Secretary of the Canadian Institute, and on my far  
25 left is Mr. Bruce Philip, who is a practising member  
26 of the profession, who has been loaned to our Special  
27 Committee, and is working full time for us as a  
28 permanent Secretary until our work is completed.  
29 The others here, like myself, are members of the Special  
30 Committee. On my right is Mr. F. Gerald Townsend,





1 Mr. W.A. Simington and Mr. R.A. Lachance. We four,  
2 as in the case of Mr. Philip too, are practising members  
3 of the profession, all partners in different firms.  
4 One firm each, Mr. Chairman.

5 This is a working nucleus of a larger  
6 committee, and I thought that it might be useful if I  
7 just described to you the entire Committee, because  
8 this might give the Commissioners a yardstick of  
9 measuring the effectiveness of our work, and the  
10 breadth of experience we hope to bring to it.

11 It is a national committee, made up of  
12 partners of fairly large national firms, and  
13 represents a very large segment, we think, of the  
14 practising profession. In addition to those who are  
15 here, the members are Mr. Denham Kelsey of Vancouver,  
16 Mr. Gordon Burton of Calgary, Mr. Donald Gordon of  
17 Winnipeg, Mr. Campbell Leech of Montreal, Mr. Robert  
18 Garneau of Quebec City and Mr. H.L. McMackin of Saint John,  
19 New Brunswick.

20 I think it important that you know who is on  
21 the committee, and the fact that we represent the  
22 profession from coast to coast. The only significance  
23 to the fact that we four are from Toronto -- there is  
24 no political significance to this, Mr. Chairman. It  
25 is entirely a question of having a geographical  
26 concentration of a work force, and I thought that you  
27 would be interested in knowing the way in which we are  
28 proceeding on our studies, and the way in which we will  
29 be able to come to the conclusions which we will later  
30 present.



1                   The Toronto group has been meeting each  
2 week for a half day since we were appointed in the  
3 late fall. The out-of-town members are asked to take  
4 on assignments for us within certain sections of the  
5 tax field, and they send us memos, which we consider,  
6 and we have periodic meetings which are three-day  
7 meetings of the Committee as a whole. To this point  
8 we have two such meetings outside of Metropolitan  
9 Toronto.

10                   In this way we hope to make sure that every  
11 member of the Committee takes full part and  
12 responsibility in the decisions which are reached,  
13 and in addition to that of course we have asked them,  
14 and we expect them to consult with their own partners  
15 and colleagues, whom as I say, taken together, represent  
16 a very large segment of the practising profession.

17                   I thought that you might ask us how we  
18 expect to get the opinions of the profession as a  
19 whole, and whether we had decided to use the question-  
20 naire type of approach, and having given it careful  
21 consideration we decided that this would not really be  
22 a practical method of operating in this very technical  
23 field. We have through the magazine of the Institute  
24 invited every member to submit to us expressions of  
25 opinions and views and ideas as to things which should  
26 be explored. We have asked the taxation committees  
27 of the respective provincial Institutes to liaise with  
28 us and submit their ideas to us, which they are doing.  
29 We think that in this way we will in fact gather together  
30 a real expression of opinion which the Institute can



1 properly put forward as representative of the Institute  
2 as a whole. I must say, of course, I am quite sure  
3 that there will be some who won't agree with us. This  
4 is inevitable, but we do hope and expect to be able  
5 to speak really for the majority of the Institute in  
6 this fashion. I think this is important, because in  
7 the end result this Institute, in making recommendations  
8 or observations to your Commission will be speaking  
9 for no particular industry, for no group of taxpayers,  
10 nor for no geographical area, and we will try to bring  
11 forward a completely impartial and independent ex-  
12 pression of opinion, which will be based on the  
13 practical experience of accountants across this  
14 country.

15 We don't expect to engage other independent  
16 experts, or economists, to do underlying research for  
17 us. This, of course, will lengthen the scope of what  
18 we will be able to present. Our intention is, and this  
19 of course should be traditional with accountants,  
20 to stick with the areas in which we have competency  
21 and experience, and we don't expect to generalize, or  
22 make observations on things of which we don't have first-  
23 hand knowledge.

24 Today we expected, of course, that you would  
25 not wish us to read this brief. We, for our part  
26 in discussing it amongst ourselves came to the con-  
27 clusion that we didn't need to amplify it in a special  
28 presentation to you. We know that you are expecting  
29 to ask questions of us, and we hope that we are  
30 sufficiently well prepared to be helpful and useful to



1 you in those questions.

2 I might just say by way of qualification  
3 that we have not in the Special Committee reached  
4 final conclusions on any subject that we are ready at  
5 this time to put forward, because while we may have  
6 tentative conclusions that may very well be altered  
7 by a decision that we make in some other aspect of the  
8 whole tax system. When we are through we wish to make  
9 sure, of course, that everything is properly related one  
10 to the other. So that we, perhaps unlike some of the  
11 presentations that you may have had so far, will be  
12 careful to avoid expressing opinions at this early  
13 date, and in that respect perhaps our presentation will  
14 lack the colour and interest that might otherwise  
15 have been injected into it, but we will try our best  
16 to be the greatest possible help to you.

17 I would like to ask you, Mr. Chairman, if it  
18 is in order, that my colleagues, the three members  
19 of the Special Committee who are with me, could feel  
20 free to answer any question that you put to us, or  
21 amplify any answer that is given by one or the other of  
22 us. By and large, I will try to handle them myself,  
23 and we may expect anybody to amplify if I make an  
24 obvious omission or error.

25 I think that is all that I wish to say as an  
26 introduction Mr. Chairman.

27 THE CHAIRMAN: Thank you very much indeed.  
28 By the way, as we continue there is no reason for  
29 anyone to stand up. I am very glad that you described  
30 the operations of your Committee, Mr. Little. It is





1 indeed most impressive. I only wish that we had the  
2 right to charter you as a Royal Commission of accountants.

3 It seems to me that the effort you described  
4 justifies the greatest approbation.

5 I gather, Mr. Little, that you would wish us  
6 then to proceed to direct questions. As you receive  
7 them you may handle them yourself, or you may pass them  
8 on to one of your colleagues.

9 I think perhaps I will direct a question to  
10 you immediately. In paragraph 2 you refer to  
11 certain attributes of the Canadian tax statutes, and  
12 you mention clarity, certainty and equity in the law  
13 and its administration along with convenience and  
14 economy to both the taxpayer and the tax collector.  
15 We usually hear the word "simplicity" brought in at  
16 this point. There seems to be a great call for more  
17 simple laws. The Income Tax Act, it is suggested,  
18 has become a most complex article, and I was wondering  
19 whether you would think that simplicity should be in-  
20 cluded in the statement as to the attributes, and as  
21 to whether you would actually care to rate them, or  
22 perhaps they are rated in the order in which they are  
23 given?

24 MR. LITTLE: Mr. Chairman, I am sure that  
25 all my colleagues would agree that simplicity is a  
26 highly desirable characteristic, and in setting down  
27 the attributes that we did we were not of course trying  
28 to be all-inclusive, but simply illustrative of what  
29 we meant by the attributes of a good system. Certainly  
30 we would all be very much in favour of the greatest



1       simplicity that is possible, consistent with whatever  
2       tax system must emerge. We have not attempted to  
3       rate these particular attributes in order of importance,  
4       and I don't think at this stage of the game that  
5       we would care to attempt to. We think that they are  
6       all important, and that none of them can be ignored.

7               MR. SIMINGTON: Mr. Chairman, I would think  
8       that once you put equity into this as one of the  
9       attributes, and give it some importance, that you  
10      effect the simplicity that you can achieve in the law.

11             THE CHAIRMAN: It seems to me that the more  
12      one tries for equity, the more the law tends to become  
13      complex.

14             MR. SIMINGTON: That is what I meant to  
15      imply.

16             COMMISSIONER PERRY: The point I have<sup>is</sup> on the  
17      next paragraph, Mr. Chairman. We have had  
18      witnesses suggest to us that we study all or parts  
19      of the tax systems of other countries, for whatever  
20      examples we might find that would be useful for  
21      Canada, but I don't think anyone has advanced quite as  
22      strong a proposition as that the general level of  
23      taxation in Canada be maintained at about the same  
24      point as that of other countries.

25             Now, I can see arguments for this, certainly,  
26      but I wondered if just from your own daily practice  
27      you could cite the sort of experiences that you have  
28      which lead you to this conclusion. I think you would  
29      have to concede that it is rather a counsel of per-  
30      fection to begin with, but there must be things in your



1 day-to-day practice which have led you to make this  
2 recommendation?

3 MR. LITTLE: Well Mr. Perry, if you are  
4 reading the sentence that reads:

5 " Having regard to the present free flow of  
6 capital and individual talents, the Commissioners  
7 should also consider the advisability of  
8 attempting to maintain a level of taxation ---"

9 And so on, if one can draw from the sentence the  
10 implication that we are making a recommendation, and  
11 we have not worded the sentence properly, this is not  
12 our intention. We feel that the Commission ought  
13 to consider the level of taxation in countries which are  
14 close to us geographically, or in matters of trade.

15 We had, for example, two things in mind in making this  
16 reference. One is the fact that there is a very large  
17 proportion of Canadian enterprise owned and controlled  
18 by non-residents of Canada, and it seemed to us that  
19 the Commission should consider if, for example, it  
20 made sense to reduce the rate of corporate income tax  
21 whether it would really make very much sense over-all  
22 to make a reduction in Canadian corporate income tax,  
23 which simply had the net effect of transferring a tax  
24 collection from this country to some other country.

25 This is one of the things that we had in mind. We  
26 also, I think, were thinking about the effect that the  
27 taxation level in other countries, and particularly the  
28 United States, might have on the action of individuals,  
29 and the inducement that there might be to them to move  
30 to another country.



1 That is the sort of thing that we had in  
2 mind that we thought ought to be taken into account  
3 by the Commissioners. We didn't intend to suggest  
4 that we ought to maintain a level consistent with that  
5 of some other countries.

6 COMMISSIONER PERRY: Then I do gather that  
7 this recommendation is based on some of the things  
8 that you observe in carrying on your practice as  
9 accountants.

10 What I am really after here is whether this  
11 is just sort of a general prescription, to which  
12 I think most people would adhere, or whether it does  
13 reflect some concrete experience in your day-to-day  
14 practices?

15 MR. LITTLE: Well, dealing with the first  
16 part of my reply, which dealt with corporate income  
17 tax, we wouldn't think that day-to-day experience  
18 was necessary, because if one can accept the proposition  
19 that a large segment of our business is owned, let us  
20 say in the United States, and we know what their  
21 rate is, and we know what our rate is, then we can  
22 come to a conclusion that to drop our rate to say 30  
23 per cent might in the end result simply have the effect  
24 of increasing the taxes levied in the U.S.A. and  
25 dropping those of Canada in respect to this large  
26 segment.

27 --

28 --

29 --

30





1                   COMMISSIONER BEAUVAIS: Have you considered  
2 the 15 per cent withholding tax on dividends paid to  
3 American parent companies, for instance, in that same  
4 field?

5                   MR. LITTLE: Have we considered it?

6                   COMMISSIONER BEAUVAIS: Yes.

7                   MR. LITTLE: Well, we are going to consider it,  
8 Mr. Beauvais. We are not, today, prepared to make a  
9 recommendation on it, but we do expect to consider the  
10 impact and implication of the withholding tax on revenue  
11 of various sorts flowing to non-residents.

12                  THE CHAIRMAN: Mr. Little, you speak about  
13 persons moving to other countries, both persons and  
14 corporations -- I don't know. We have wondered if there  
15 is much experience in people moving abroad. At this  
16 time I don't suppose you can say that chartered  
17 accountants collectively have much experience as to  
18 that effect of taxation. I don't mean chartered  
19 accountants moving abroad themselves.

20                  MR. LITTLE: No, I think that is probably  
21 true, Mr. Chairman. The occasion on which other  
22 professions would come in contact with the movement of  
23 a person of this sort would probably be one that was  
24 so outstanding and so newsworthy in itself that we  
25 would all know about it. But if this is affecting  
26 the movement of nurses, for example, from Ontario to  
27 Illinois, our chartered accountants as such would not  
28 likely have firsthand knowledge in this area.

29                  COMMISSIONER BEAUVAIS: I refer you to taxation  
30 of corporate distributions on page 1, item 6, of the



1 brief. That is quite an important matter, and it talks  
2 about double taxation of corporate profits, problems of  
3 undistributed income, loopholes, and so forth.

4 But we assume that your Committee will study the  
5 present methods of taxing corporate institutions, the  
6 effect on ownership of business and corporate organiza-  
7 tions which needs separate study, because that is a  
8 very, very important study, and to my mind I think it  
9 touches about forty to fifty sections of the Act,  
10 starting from section 28 and on.

11 MR. LITTLE: Mr. Chairman, we do, in fact,  
12 expect to make firm and concrete recommendations in  
13 this area. We quite agree, certainly, as our profession  
14 sees it, that this is one of the most difficult problems  
15 in the Act. We have also assumed that there are not  
16 likely to be very many groups or individuals or  
17 industries that will independently of your own studies  
18 look on these problems and try to work out what the  
19 alternative solutions might be. And I might also say,  
20 Mr. Chairman, that it is perfectly safe to say that in  
21 our deliberations so far we have spent more time on  
22 this one area certainly than in any other and perhaps  
23 than most of the rest put together. We do expect to  
24 make firm recommendations in our final brief for perhaps  
25 alternative ways of solving the problem.

26 THE CHAIRMAN: Thank you very much, Mr. Little.  
27 Certainly this is going to give us very great concern,  
28 and it is good news to us that you are going to do work  
29 on it, as we expect you to do to some degree as you  
30 have the expertese which is not very common, and perhaps



1 the Bar Association, too.

2 COMMISSIONER PERRY: Mr. Chairman, I wonder  
3 if I could ride one of my favourite hobby horses here  
4 and ask whether that is necessarily a problem which  
5 arises out of double taxation? My own feeling is  
6 that you could take away the corporations profits tax  
7 and exaggerate the problem. Isn't it basically a  
8 personal income tax problem; that the tax that is  
9 involved, which is the real difficulty, is the personal  
10 income tax? If you wipe the corporations profits tax  
11 out entirely and therefore eliminate double taxation,  
12 you would still have the problem of undistributed  
13 income and personal income tax. That is almost a  
14 quibble on words, but I think it helps to clarify the  
15 position a bit.

16 MR. LITTLE: Yes, I think I would agree with  
17 that, Mr. Chairman. I think perhaps the problem is  
18 aggravated by the fact that there are two levels of  
19 tax and possibly by a double tax element to whatever  
20 extent there is a double tax element. But it is more,  
21 I think, the current problem that while it does, in  
22 fact, stem from personal rates of tax, what is  
23 bothersome to professional practitioners and to  
24 business is the fact that there are a number of choices  
25 open to the taxpayer within the Act and some choices  
26 open to him which are not in the Act, and there is a  
27 great deal of uncertainty and confusion and a lack now  
28 of being certain in one's own mind as to what is right  
29 and what is wrong. It is a combination of them.

30 THE CHAIRMAN: Mr. Little, it seems to me that





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1 this whole matter goes beyond being a technical problem.  
2 You mention the choices in the Act and there are those  
3 outside the Act which are clearly loopholes, not  
4 intended, and which are the rule rather than the excep-  
5 tion, and it seems to me that that would have a more  
6 demoralizing effect throughout the land. I think that  
7 is one of our real problems.

8 COMMISSIONER GRANT: Mr. Little, your prelimi-  
9 nary submission supports the preservation of the personal  
10 corporate entity, notwithstanding the difficulties which  
11 tax authorities encounter. Do you give considerable  
12 emphasis to the personal corporation in so far as it  
13 is related to an estate plan?

14 MR. LITTLE: Mr. Chairman, once again I  
15 should apologize to the Commissioners for our choice  
16 of wording, because we were not consciously pumping  
17 for the retention of personal corporations. What we  
18 are trying to do is to point out that there are two  
19 sides to this problem. They do, we feel, serve two  
20 purposes in the estate plan. We also recognize that  
21 there has been some abuse of the personal corporation  
22 provisions. What we are really suggesting is that it  
23 would be wrong to try to eliminate the abuse without  
24 recognition of the fact that they do serve a useful  
25 and worthwhile purpose, and they must be weighed one  
26 against the other. At this stage of the game, as I  
27 have said, it is too early for us to express an  
28 opinion, but I think it is safe to say that this is  
29 not an area in our tax system which we view with  
30 alarm. We think there are changes which may be





1     desirable, and we simply are suggesting that this is  
2     something, like so many other things in the Act which  
3     to some extent have made for uncertainty, which needs  
4     attention, and nothing like the seriousness, of course,  
5     of the problem we have just discussed.

6             THE CHAIRMAN: Mr. Little, I am not sure that  
7     you can properly equate the seriousness of the one with  
8     the other without examination. It has been suggested  
9     to us that very few, if any, people pay the high rates  
10    of personal income tax. It has also been suggested  
11    that one way around that is, of course, the use of  
12    personal corporations which have been arranged so as  
13    not to be personal corporations. Should there be a  
14    loophole, it could be a very serious one. I simply  
15    draw your attention to that. You have it in your mind  
16    already.

17            MR. LITTLE: Yes, we entirely agree with what  
18    you said, Mr. Chairman, that without any shadow of  
19    doubt there is a loophole in this section. I think  
20    that we can't ignore a loophole or loss of revenue, but  
21    we don't think it is as serious a problem as some of  
22    the others to be dealt with.

23            I may say that this is not an easy thing for  
24    anyone to measure, and we felt that we ought, in  
25    considering a problem such as this, to see if we can  
26    be useful in advising how the Commission can assess  
27    the extent of a loophole, and I am afraid we have  
28    nothing very constructive to suggest, except that,  
29    depending upon the extent to which the Department of  
30    National Revenue can prepare statistics for you or make



1 studies, we felt that with their co-operation it  
2 might be possible to get some indication of the extent  
3 of companies which are quite obviously not real commer-  
4 cial operating companies but which are companies which  
5 are largely of a personal investment nature. But  
6 other than going on records of that sort, we don't  
7 know what other avenue there is except to ask  
8 accountants and lawyers and this Committee, for  
9 example, as they finally appear before you to give  
10 some expression of opinion.

11 THE CHAIRMAN: It may be very hard to legis-  
12 late. To close such a loophole, one must, I think,  
13 consider whether there is an across-the-board flat  
14 rule or whether it must be moved into the area with  
15 some discretion. We hope you consider that. We  
16 certainly will be considering it.

17 COMMISSIONER GRANT: A personal corporation  
18 may be so regarded during the life of the principal  
19 shareholders, but it <sup>may be</sup> changed when it becomes an  
20 asset of the estate.

21 MR. LITTLE: That, of course, does follow, sir.  
22 The real difficulty in this area is not the companies  
23 which are personal corporations which stand out, it is  
24 those which are personal corporations in respect of  
25 which there are no statistics. This is what is going  
26 to be difficult.

27 COMMISSIONER PERRY: On the subject of tax  
28 incentives, Mr. Little, I think we certainly agree  
29 that the questions you suggest must be looked into  
30 and, if possible, answered. Again, though, we were



1 wondering to what extent practising accountants can  
2 throw light on this. It is difficult to learn, for  
3 example, of a company which considered an incentive or  
4 considered a project because of an incentive which had  
5 been offered and which didn't proceed because the  
6 incentive was inadequate. Does your daily practice  
7 bring you into contact with companies who would be  
8 considering these things?

9 MR. LITTLE: Well, I think to some extent that  
10 it does. It is too early, for example, to assess whether  
11 the recent change in respect of scientific research will  
12 be effective. We think that, if broadly administered,  
13 this particular incentive will work as an incentive.

14 Now, we have seen some modest evidence of this  
15 already, but, as I say, it is too early for us to draw a  
16 conclusion, and I don't do so, except to point out that  
17 there will be evidence when we come back that this  
18 incentive will work.

19 Our tentative conclusion is that if it works  
20 it is because the incentive is a generous one. Our  
21 feeling in respect of some incentives in the past in  
22 the area of the capital cost allowance, for example,  
23 our daily experience rather suggests to us that people  
24 fall heir to this whim, that it really may not be induc-  
25 ing people to take action. This may lead us to a  
26 conclusion that it is the quantum of the incentive and  
27 not its nature which is at fault.

28 This, again, as I say, is something which we  
29 would hope in our final presentation to express an  
30 opinion on.





1 COMMISSIONER PERRY: It would be very helpful,  
2 particularly on this latter point, to consider the way  
3 in which these things fall short; whether they err in  
4 their generosity or whether they are ill-conceived.

5 THE CHAIRMAN: Or might we say, in fact, that  
6 they are too expensive, Mr. Perry? Like you, I am  
7 rather enthusiastic about this, but I suppose one ought  
8 to measure their success against the cost to the  
9 government. I think it is roughly 25 per cent subsidy  
10 in the case of successful companies. If that is the  
11 case, does the government need to give 25 per cent  
12 subsidy to ten taxpayers in order to have one go ahead?  
13 I think one could look at it in this way.

14 MR. LITTLE: Yes. We, of course, do not  
15 suggest in our organization that research ought to be  
16 induced by incentive or not. All we would do is  
17 suggest whether the incentive will work.

18 THE CHAIRMAN: If one turns from that one to  
19 increased sales, there will be a great number of people  
20 qualifying for tax abatement because of increased sales.  
21 I would imagine it would be very hard to determine  
22 whether the increases were brought about by the tax  
23 concession or whether, in fact, they were windfalls,  
24 and I don't think one could have much of an informed  
25 view of the incentive without that kind of consideration.

26 MR. LITTLE: Yes, I agree this would be very  
27 difficult to assess. I would expect that in our final  
28 submission we will make comment on the sales incentive.

29 Our feeling is that we may in our day to day  
30 practice find that in many cases it has turned out to be





1 a windfall that was produced through no action at all  
2 on the part of the taxpayer.

3 THE CHAIRMAN: It would be very helpful to us.

4 COMMISSIONER PERRY: I wonder if it would be  
5 reasonable to suggest that you might also, through  
6 your overseas associates, get some appraisal of the  
7 effect of incentives in European countries particularly.  
8 We find that it is not very difficult to obtain descrip-  
9 tions of what these incentives are, but it is exceedingly  
10 hard to get any appraisal of how they have worked out,  
11 what their effect has been, whether they have accom-  
12 plished the purpose for which they were established.

13 MR. LITTLE: I am sure that we could do that  
14 through the various international firms with which we  
15 are associated. We will try to do so, and if we think  
16 there is information which will be useful and can be  
17 relied upon, we will put it before you.

18 THE CHAIRMAN: Thank you. We have tried  
19 through the normal channels and so far found nothing.  
20 It would be very helpful if you would do it in the way  
21 you suggest.

22 COMMISSIONER BEAUVAIS: Now, Mr. Little, on  
23 this subject of taxable income and its relationship to  
24 accounting income, paragraph 13 in your brief, you  
25 mention the main points of difference on page 4, four  
26 main points. Should the Commission investigate the  
27 advisability of having inserted in the Act that the  
28 taxable income of corporations shall be based on  
29 income according to audited financial statements sub-  
30 mitted to the shareholders? It was discussed, I think,



1 some years ago, and maybe this would solve partly the  
2 point that you raise in this connection?

3 MR. LITTLE: Yes, I think there is no doubt  
4 that a change of that sort would solve certain problems.  
5 Our preliminary thinking, though, is that it would  
6 create other problems of such magnitude that perhaps  
7 the disadvantages would more than offset the advantages.  
8 Our preliminary feeling, I think, is that unless the  
9 whole taxation system were to be changed very funda-  
10 mentally, there will of necessity be significant  
11 differences between what may properly be reported  
12 annually as corporate income and what ought to be  
13 taxed under our system. These things which we have  
14 mentioned perhaps fall into this category. We have  
15 talked of incentives. There is the question of capital  
16 gains, additional capital cost allowances, recovery  
17 under this capital cost allowance system, and so on.

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27 --



1 There are, I think, so many differences of this sort  
2 that I don't think we would be prepared to suggest a  
3 fundamental change of this sort.

4 COMMISSIONER BEAUVAIS: Coming to the last  
5 part of (f), you say this applies also to the steps that  
6 might be taken to reduce the uncertainty as to the dis-  
7 tinction between capital gains and ordinary income.  
8 Do you mean by that that we should have a definition of  
9 capital gains?

10 MR. LITTLE: Mr. Chairman, I find difficulty  
11 now in relating that particular sentence to what has  
12 gone on ahead, except to the extent that there is a  
13 very grey area in this field of what is capital and  
14 what is income, and it might in fact be possible by  
15 ruling or regulation to clarify some of these areas.  
16 I am not sure yet what should be done.

17 THE CHAIRMAN: I thought that perhaps you  
18 intended to suggest there that there might be rules to  
19 narrow this grey area. It might be helpful to adopt  
20 a time measure with regard to securities and property  
21 tax, or something of that kind. If that is so, of  
22 course we would be delighted in due course to hear more  
23 about it, because it is very difficult.

24 MR. PHILIP: Mr. Chairman, I think we had in  
25 mind some statutory rules to deal with the types of  
26 transactions which give rise to these problems, and  
27 perhaps nothing more.

28 THE CHAIRMAN: Something like the new U.K.  
29 statute, or the U.S. rules?

30 MR. PHILIP: Not so complicated as the U.S.



1 rules, I would hope, but perhaps the time measurement  
2 that you mentioned on real estate and other areas which  
3 give rise to these problems very often.

4 THE CHAIRMAN: I have often wondered why it is  
5 necessary to have a capital gains tax in order to pro-  
6 duce a rule. I would have thought that this country  
7 could have had rules without extending our taxation to  
8 capital gains. I am not trying to say that we should  
9 not do so. I don't know.

10 MR. LITTLE: Mr. Chairman, I would have said  
11 the same thing if you had not done so, because it seems  
12 to me that what the U.K. government has done in setting  
13 time limits, and bringing into tax ordinary income the  
14 gain on certain transactions really has not solved the  
15 basic problem of deciding what is the capital and what  
16 is the income. They have simply made it easier for the  
17 assessing program, because they have taken a time area,  
18 which it inself has gathered in most of the problems,  
19 and this is an easy solution.

20 I personally at the time didn't feel that  
21 this was necessarily the right approach.

22 THE CHAIRMAN: Again, Mr. Beauvais, may we  
23 go back to the answer to one question under the heading  
24 of income accounting and tax accounting, and I don't  
25 think we quite covered a point which I have got in  
26 mind. At one time, 1947 I think, in a draft of the  
27 Income Tax Act, it was proposed that, having regard  
28 to some such phrase as accounting principles, it may  
29 have been practices, I don't recall -- that was turned  
30 down after considerable debate, and I think it was





1 turned down because at that time the accountants were  
2 not prepared to say that they felt that the state of  
3 accounting had moved to a point where they believed  
4 that taxation could be based on such principles. Since  
5 then accounting has advanced considerably, and we must  
6 consider whether or not it has now reached a point where  
7 profits could be related to accounting principles, and  
8 certainly I remember that the accountants very seriously  
9 considered it.

10 Would that not be a fair subject for you?

11 MR. LITTLE: Yes, it would indeed, Mr. Chairman,  
12 and this is something that we have been discussing  
13 amongst ourselves. We quite agree that there has been  
14 significant progress in codification and agreement  
15 amongst accountants as to what acceptable principles  
16 and practices are at this moment, though I think it is  
17 safe to say that we are still having difficulty in  
18 concluding that we have gone far enough in this direc-  
19 tion to be able to take this step.

20 However, in our brief we will, I think, plan  
21 to take a stand. I am sure my colleagues would like  
22 to speak to this, because this has been the subject of  
23 hot debate.

24 MR. TOWNSEND: Mr. Chairman, I don't think  
25 that I can add really very much to what Mr. Little  
26 has said. It is a difficult question, and as I recall  
27 what happened in 1947 the draft bill did say generally  
28 accepted accounting principles, and I think the  
29 accountants did come back at that time and suggest  
30 the substitution of the word "practices" for



1 "principles", as adding some advantages to the bill.  
2 But, as Mr. Little says, in our final recommendations  
3 we will be taking a stand on this, and it may be some-  
4 thing along those lines, or it may be something com-  
5 pletely different.

6 THE CHAIRMAN: Yes, I hope you won't feel that  
7 before such a recommendation could be made that the  
8 accountants much achieve a state close to perfection.  
9 You will never reach that in regard to accounting  
10 principles, I don't think.

11 MR. SIMINGTON: Mr. Chairman, one area that  
12 gives me a little concern about the use of that phrase,  
13 generally accepted accounting principles, is that at  
14 present in some areas there are a number of choices in  
15 that area, and I think it would be very helpful if the  
16 number of choices becomes narrowed down, and I think it  
17 will in the passage of time and as accountants work in  
18 this area, but at the moment there are in some areas a  
19 variety of acceptable principles, and they can have a  
20 significant effect on income.

21 THE CHAIRMAN: Should the accountants not  
22 become a little tougher minded with regard to choice  
23 of methods recommended in their bulletins?

24 MR. SIMINGTON: I think so.

25 MR. LITTLE: Mr. Chairman, while it is true  
26 that we have made progress in this direction, changing  
27 events have opened up new problems, and the one question  
28 of price level has brought a whole set of problems  
29 before us. I think accountants will have difficulty,  
30 and it could have a major effect on tax policy. I quite



1 agree with the desirability of what you say, Mr.  
2 Chairman, but I am just pointing out that there are  
3 problems, and as we solve several perhaps a new one  
4 crops up.

5 THE CHAIRMAN: "LIFO" is one you touch on  
6 here. As I think you are all aware, it was aired some  
7 years ago in the courts, and since then efforts have  
8 been made to persuade the authorities to modify the law.  
9 I rather think that such attempts have foundered on the  
10 difficulties of administration. I am not very sure of  
11 that. That is certainly one of the difficulties. I  
12 think that the administrative officers have probably  
13 been aware of the difficulties in the United States,  
14 or the broad area to which this matter has been extended,  
15 and I don't think we have been altogether successful in  
16 this country in the use of nice tidy packages as to how  
17 to deal with this. Certainly this again is something  
18 of which the accountants would have more expert knowledge  
19 than any other part of the community.

20 COMMISSIONER BEAUVAIS: On capital cost  
21 allowances I see that it appears that the present system  
22 is satisfactory, and you would not recommend a return to  
23 the old system of straightline depreciation?

24 MR. LITTLE: Yes, I think that in this case we  
25 perhaps have gone further in reaching a conclusion at  
26 this early stage than we have in other cases, and I  
27 think it is true to say that there has been in this  
28 area, up to this point, surprising unanimity amongst  
29 our members that the capital cost system that we now  
30 have is operating satisfactorily, and we don't expect to





1 be recommending any departure from it as a basic  
2 system.

3 COMMISSIONER BEAUVAIS: And I see that  
4 however, further consideration should be given to the  
5 rate structure, classification of assets, treatment of  
6 non-arm's length transactions, and so forth. That will  
7 be in your final recommendation, will it?

8 MR. LITTLE: Yes, some of these things that we  
9 touch on might properly fall under the heading of loop-  
10 holes and anomalies. The lease-option, for example,  
11 we would expect that in this area we would be in fact  
12 making a representation of our own. At this time we  
13 simply mention these items as things which we think are  
14 worth directing the Commission's attention to in the  
15 course of their studies.

16 THE CHAIRMAN: You are referring to  
17 capital cost allowances, and you indicate that you  
18 think they are probably a very satisfactory system.  
19 I think you would say it is a good system possibly in  
20 contrast to the systems of other countries. Would you  
21 consider it to be a generous measure of depreciation?

22 Now, I ask that question because I notice the  
23 equalization reserves on an awful lot of balance sheets,  
24 which very clearly state that people have claimed  
25 capital cost in excess of depreciation, and I think  
26 depreciation is the best measure of what their earnings  
27 would be, and therefore they have taken more than what  
28 would be their earnings. I think it would be generous  
29 as far as it affects taxation. Would that be a fair  
30 assumption to draw?





1 MR. LITTLE: I think that would be a fair  
2 assumption to draw, Mr. Chairman. I think we would have  
3 the same reaction to the fact that a good many corpora-  
4 tions do in fact write less depreciation in their  
5 annual accounts than they claim. I think that if one  
6 is to describe the system as a generous one, one has to  
7 look at the life of the asset of course, because in the  
8 long term the system produces the same end result of  
9 writing off an asset, and there comes a point where on the  
10 reducing balance basis you swing in the opposite direc-  
11 tion, but where new expenditures are being made I think  
12 it would be safe to conclude that the initial allowances

13 THE CHAIRMAN: Generosity would be reflected  
14 by improved cash reserves.

15 COMMISSIONER PERRY: Just on this subject, Mr.  
16 Chairman, I hope that either under this heading, or  
17 under tax incentives, the Institute will be considering  
18 some such devices as they have in Europe. The invest-  
19 ment allowance particularly, and the initial allowances.  
20 They are more in the nature of tax incentives than  
21 allowances for capital expenditure.

22 MR. LITTLE: I would think at this stage, Mr.  
23 Chairman, that the likelihood is in dealing with the  
24 question of incentives of this sort that we would  
25 refer to the investment allowances, so-called. We  
26 would of course not be suggesting that the consensus of  
27 this at all is desirable. This is a policy question,  
28 with which we shall deal, but we might very well come  
29 to the conclusion that an allowance of that sort, if  
30 an incentive is desirable, would be a greater incentive



1 than perhaps what we have had in the past.

2 THE CHAIRMAN: Mr. Chairman, I am very pleased  
3 to note by your paragraph 16 that it is the intention  
4 of the Institute to review anomalies, inequities and  
5 loopholes. That, to my way of thinking, would be a  
6 very valuable contribution to the work of this  
7 Commission. In fact, I have wondered how we would make  
8 an inventory of such anomalies. The experience of  
9 accountants is perhaps the best way to get such an  
10 inventory, so I hope that you will find yourselves able  
11 to proceed with this in full.

12 MR. LITTLE: Mr. Chairman, we certainly intend  
13 to do this. Actually, the recommendations of the Joint  
14 Committee of the Institute of Chartered Accountants and  
15 the Canadian Bar, in its annual presentation to the  
16 Ministers of National Revenue and Finance, do in fact  
17 contain a list of a great many loopholes and anomalies,  
18 and items that need correction, and we assume, of  
19 course, that this study is in the hands of the  
20 Commission staff.

21 We, for our part in our presentation, would  
22 I think not only refer to those studies, but the  
23 likelihood is that we would attach as an appendix  
24 perhaps to our presentation a listing of the various  
25 items which need attention, but we will do more than  
26 that, I think, and perhaps try to within the brief  
27 itself place emphasis in those areas which we think  
28 cause the greatest concern, and certainly those that  
29 fall in the area of corporate surplus distribution  
30 would be high on the list. So would the problems of



1 associated companies be high on the list. The lease-  
2 option problems we would emphasize. Personal corpora-  
3 tions certainly, perhaps with lesser emphasis, but we  
4 in this presentation I hope will be able to not only  
5 give a listing, an inventory, of the various things,  
6 but try to focus our recommendations in the real  
7 trouble spots. While we have dealt with this problem  
8 in two short sentences, there is no question in our  
9 collective mind, Mr. Chairman, that the problem of  
10 loopholes and anomalies is a very serious one, and not  
11 only has created this uncertainty in the minds of the  
12 taxpayers and their advisers, but we think perhaps has  
13 drawn unnecessary fire against the basic tax system  
14 itself, and that without these problems perhaps the  
15 criticisms that come so generously from the public  
16 would be of far less importance. But we will hope to  
17 give this particular area a very thorough going over.

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1 We were curious, I must say, in our  
2 deliberations as to what is an anomaly. It is  
3 significantly different from an inequity or loophole.  
4 We thought the Commission would give us guidance in  
5 this connection.

6 COMMISSION MILNE: Mr. Little, I was  
7 going to speak a little bit about the personal tax field,  
8 and in your submission here you outline some avenues  
9 that you feel the Commission should study, and we  
10 feel that there are other avenues on which the  
11 Institute could be of very great value to us in our  
12 studies, because in your professional capacity doubtless  
13 you would encounter the effect of specific provisions  
14 in the taxing statutes. I don't know if you would  
15 like to make any preliminary observations today about  
16 these few items which are mentioned or whether you would  
17 like to leave them to another time. But we would  
18 really like you to consider them because we feel that  
19 yours is an area where we could get expert advice. Do  
20 you mind if I list them?

21 MR. LITTLE: No, we would welcome them,  
22 Mrs. Milne, and whether or not I am able to answer now  
23 or whether it is proper for me to answer, we would  
24 certainly like to have them and we will deal with them  
25 in our final submission at least.

26 COMMISSIONER MILNE: Thank you. I am sure  
27 that there are others that possibly other Commissioners  
28 will bring forward, but this is the list which occurred  
29 at the moment.

30 I will phrase it as a question. Do you think





DD-2

1 the Act should be liberalized as regarding individuals  
2 with fluctuating incomes? Are there other individuals  
3 who should receive the same type of treatment as  
4 farmers and fishermen? Would you care to express  
5 an opinion on that?

6 MR. LITTLE: Yes, I would say, Mrs. Milne,  
7 that there is an area here which does need inquiry.  
8 I couldn't today assess how difficult it is, but there  
9 are certainly other people who have the same problem.  
10 Athletes, for example, those who write books, those  
11 who produce plays. I suppose even to some extent a  
12 person such as a highly qualified surgeon who perhaps  
13 spends a great part of his early career in expensive  
14 training and enjoys a relatively small span of high  
15 income years and tapers off much more quickly than  
16 the ordinary person. I have no views on this, but  
17 I think it is quite properly an area that ought to be  
18 looked at by the Commission, and we ourselves will try  
19 to be helpful.

20 COMMISSIONER MILNE: Thank you. As to  
21 the next one, I am sure you will see that there is  
22 possibly a reason why we suggest it. It is income-  
23 splitting for husbands and wives tax purposes.

24 MR. LITTLE: Well, I would certainly be  
25 in favour of it if my wife had incomes. I think at  
26 this time I can only say that we will deal with it.  
27 We have mentioned it in our deliberations. I think  
28 we have not attached great weight to it as yet because  
29 income-splitting really, if it reduced the over-all  
30 revenue taxation, would have perhaps to be accompanied



DD-3

1 by a change in rate structure, and it may be found  
2 on study that as compared with a resident of California,  
3 let's say, that marital exemptions and our rates of  
4 tax measured against the same rates in the United States  
5 might be substantially different.

6 COMMISSIONER MILNE: We have already had  
7 projected to us some idea along that particular line  
8 in respect of European countries, and we are fairly  
9 confident that within our own country we are going to  
10 hear quite a bit along this line.

11 There is another one, and that is,  
12 are there serious problems in the country arising  
13 out of expense account living which the Commission  
14 should investigate?

15 MR. LITTLE: I think, Mrs. Milne, that  
16 our reaction so far as expense account living is  
17 concerned so far is that we certainly agree that it is  
18 most highly undesirable that one small segment of  
19 the economy should be able to benefit in this way.  
20 Like crime in general, this sort of thing makes news.  
21 I would think it is fair to say<sup>as</sup>/a generality that there  
22 is not in this country the flagrant abuse of expense  
23 account living that there may be in other countries.  
24 I think definitely it is worth looking at, but our  
25 present reaction, I think, is that it is not an area  
26 of serious concern. Obviously anything that is a  
27 loophole or an unwarranted fringe should be corrected.  
28 All we are trying to suggest is that it hasn't appeared  
29 to us to be a real problem.

30 COMMISSIONER MILNE: Well, I would certainly



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1 think that if it were an ill or an evil your group  
2 would be the one that would recognize it.

3 COMMISSIONER GRANT: At the same time you  
4 might be under some handicap in bringing that forward.

5 MR. LITTLE: Well, Mr. Chairman, I would  
6 hope and expect that, in fact, in our final  
7 recommendations the Canadian Institute will take a  
8 completely impartial objective view, and there is no  
9 question that we will make some recommendations that  
10 some members of the accounting profession won't like.  
11 We will certainly make some recommendations that  
12 some of our clients won't like. But there is no doubt  
13 in the minds of some of my colleagues that our  
14 responsibility to this Commission is to come up with  
15 the most responsible, impartial recommendations that  
16 we can, and I am not concerned at this point.

17 THE CHAIRMAN: I am delighted to hear you  
18 say that. Certainly the knowledge that these gentlemen  
19 have, collectively and in total, comes from their  
20 experience and from experience in dealing with their  
21 clients, and <sup>if</sup> they are going to serve the public interest,  
22 they are going to tell us of their personal experience,  
23 which is the sum total of all of their experiences.

24 MR. LITTLE: I might just say, Mr. Chairman,  
25 just to carry it to its logical conclusion, that  
26 there isn't the slightest doubt in our minds that the  
27 majority of our clients would want us to do this,  
28 because they feel just as we do about loopholes, fringes,  
29 cheating and so on.

30



1 THE CHAIRMAN: I think we will break for  
2 ten minutes, but before doing so you might like me to  
3 read the definition of an anomaly which I have looked  
4 up. It is described in the Oxford Dictionary as:  
5 " an angular distance of planet or satellite  
6 from its last perihelion or perigee"

7 MR. LITTLE: This is what we thought,  
8 Mr. Chairman.

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11 ---Recess.

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1 THE CHAIRMAN: Gentlemen, we will come  
2 to order. Mrs. Milne, you were in the midst of  
3 asking questions.

4 COMMISSIONER MILNE: Mr. Chairman, I have  
5 just one other area and it is the one you speak of as  
6 gift tax. You suggest special attention should be  
7 given to the rate schedule. I mention this particularly  
8 now because I know that <sup>for amendments to the Act</sup> in your joint submissions/~~more~~  
9 than once you have focussed attention on the gift  
10 tax and made recommendation in respect to exemption~~s~~.  
11 I would imagine that you will bring that forward  
12 in your later submission?

13 MR. LITTLE: Yes, I think we will. We have  
14 not as yet really turned our attention to gift tax  
15 except to the extent of realizing that, first of all,  
16 the rates have been in existence for a very long while.  
17 One would almost ask if they were right when they were  
18 introduced, are they right now because every other  
19 rate has changed. I think more basically perhaps  
20 that we had in our minds in suggesting a review of the  
21 gift tax that we would like to be sure of the purpose  
22 it is really intended to serve. It has apparently  
23 an obvious place interposed between income tax and  
24 estate tax but I think it needs some sorting out and  
25 we certainly will give it some attention. We have not thought  
26 of it as a significant problem area, I must say.

27 COMMISSIONER GRANT: With the provision where  
28 you have the option of taking \$4,000 a year or one-  
29 half of the tax of the previous year, ~~was~~ that not  
30 comparatively recent?



1 MR. LITTLE: Not comparatively recent,  
2 sir.

3 COMMISSIONER PERRY: Not in my  
4 recollection; it has been there since the beginning  
5 right back in 1933 or 1934.

6 MR. LITTLE: It has been in since I have  
7 been in practice.

8 COMMISSIONER GRANT: I thought it was quite  
9 recent.

10 MR. LITTLE: There was a very recent one  
11 on a gift of a house or a farm to a spouse or a son  
12 but that, to my recollection, is the only change.

13 THE CHAIRMAN: You are probably aware or  
14 you might not be, that the United States treasury in  
15 its recommendations to Congress included the elimination  
16 of any special tax for stock options. Their  
17 recommendations included numerous schedules and a  
18 great deal of material on this subject tending to  
19 show that stock options do not really carry out what  
20 was generally thought to be their intention. I think  
21 the intention of the treasury department is to show  
22 that this is a way of getting remuneration at a  
23 lower tax rate, I wonder in what respect it pertains to  
24 Canada. Our rate schedule is not as high as theirs, perhaps  
25 there is not the same need for it. I do not know. However,  
26 if stock options were encouraging the ownership of stock  
27 by officers and employees, they kept and held the stock, it  
28 may be a provision which is in the best interests of  
29  
30



1 the Canadian economy. I do not suppose you have had  
2 a chance to think about this yet?

3 MR. LITTLE: We are thinking about it,  
4 Mr. Chairman. I think it would be safe to say that  
5 we have thought of the stock option in somewhat  
6 different terms so far as its desirability or end use  
7 is concerned, if it is desirable. I think we would  
8 find that in our experience that the stock option falls  
9 in much the same category as a deferred compensation  
10 scheme. This is one of a number of techniques that  
11 executives strive for in order to be able to retain  
12 a larger portion of what they produce with their  
13 effort. It may indeed serve a purpose so far as  
14 ownership of Canadian companies is concerned but I do  
15 not think that this has been apparent to us. This  
16 is not to suggest that our own stock option privileges  
17 do not need some attention and I would be very surprised  
18 if in the end result we do not make firm recommendations  
19 to your Commission in this area.

20 THE CHAIRMAN: Thank you. Sales tax?

21 COMMISSIONER WALLS: Mr. Little, I notice  
22 you only devote one paragraph, No. 22, to what is the  
23 third last supplier in the tax field-- sales tax. In that  
24 paragraph you give no idea as to your opinion of it  
25 as a revenue producer or whether it should be explored  
26 with the idea of contributing a larger percentage of the  
27 revenue. You ask the Commission to make certain studies  
28 for which we are very grateful and I hope your own  
29 organization will assist us in gathering data on that.  
30 The one in which you ask at what stage the tax should be



1 levied, of course, is a very important one and I under-  
2 stand you intend to explore it at the three possible  
3 levels. Another question that has come up here  
4 previously is as to the use of ministerial discretion  
5 as being the final court in regard to sales tax,  
6 whether that should be continued. Then you ask us  
7 also to go into a limitation on exemptions. Now,  
8 I would like to throw one or two other questions that  
9 might be asked and again with the request that your  
10 organization, if you consider it wise, would give  
11 us the benefit of your advice and experience when you  
12 draft your brief. The first one would be the weight  
13 that should be given to this tax in comparison with  
14 the other taxes in raising revenues which was much  
15 along the lines I spoke of when I first made my remarks.

16 Secondly, in dealing with your reduction  
17 of exemptions, should consideration be given to  
18 unconditional exemptions instead of the conditional  
19 exemptions that we have at the present time? Should  
20 the minimum manufacturing status, that is, if the tax  
21 remains on the manufacturing level should the minimum  
22 and small manufacturer level be raised? Another one might  
23 be, should the tax be continued on a flat percentage  
24 level or should it be on a graduated rate level? I  
25 notice you make no mention whatsoever about excise tax  
26 in itself and which, of course, is a graduated rate.  
27 I presume the reason why you did not do that is that you  
28 perhaps entertain it as a sales tax or a supplementary  
29 sales tax.





1 MR. LITTLE: Well, Mr. Chairman, dealing  
2 with the last part of the question first: I think  
3 the likelihood is that other than sales tax we will  
4 not deal with excise tax at all perhaps because we  
5 have so little experience that we think might be helpful  
6 and useful to the Commission. Now, we won't give up  
7 but the present thinking has been that we would set  
8 aside that field.

9 COMMISSIONER WALLS: You appreciate I am  
10 not talking about excise duty? Naturally I would  
11 assume that you would leave that out because it is  
12 closely allied to tariff but I am talking about excise  
13 tax which carries on with the sales tax.

14 MR. LITTLE: I think we should deal with  
15 this. I might say in this whole area that, first of  
16 all, we approached this particular Commission with a  
17 great deal of diffidence in the sales tax area because  
18 we do not hold ourselves out as experts. Perhaps the  
19 shortness of our presentation is simply an indication  
20 of our lack of knowledge at the time this was written.  
21 We welcome the additional questions that you have raised.  
22 We, ourselves, since writing this have raised additional  
23 questions which we think ought to be dealt with and  
24 perhaps we should deal with them here. In this  
25 connection this is one of the areas where we have  
26 turned to one of our colleagues who devotes a good deal  
27 of time to this subject and have asked him to take it  
28 on as a full-time project to inform us. We have had  
29 two or three meetings with him and I think that amongst  
30 us here Mr. Townsend is the best informed of us in this



1 field. Perhaps it may be useful if we in turn  
2 delineated the additional questions we thought ought  
3 to be looked at as substitution for what we did put  
4 in in paragraph 22.

5 MR. TOWNSEND: I claim no special  
6 competence in this field. We do have one of our  
7 members doing work on this and we expect in our  
8 final submission to spend much more time in dealing  
9 with it and certainly a great deal more space than we  
10 have spent in this initial submission. We feel this  
11 is an extremely important part of the tax system. I  
12 would agree that various taxes that you have mentioned  
13 as to being items we should give consideration to and  
14 make recommendations in our final report. The level  
15 at which the tax is levelled is important. Many  
16 of the problems which seem to arise in relation to the  
17 sales tax are because of the difficulties in establishing  
18 the measuring value. We feel it is difficult to  
19 achieve equity in levying the tax where there are  
20 competing products which are distributed at varying  
21 levels and we do think the Commission should consider  
22 whether a change in the level of taxation will decrease  
23 these inequities and do away with some of the problems  
24 and we will certainly be making recommendations our-  
25 selves.

26 As far as tax base is concerned, at the  
27 present time it includes only goods. We think the  
28 Commission should consider whether or not service should  
29 be taxed. We understand that at the present time the  
30 expenditure by individuals on service is approximately



1 37 per cent of the personal disposable income of  
2 Canadians as opposed to 10 per cent of durable goods  
3 and 48 per cent of non-durable goods. This is an  
4 important area which we think should receive con-  
5 sideration, whether the exemption on service is wanted  
6 and whether or not it is practical to impose a tax  
7 on services.

8 Another part of considering the tax base  
9 is the exemptions. We feel that both the un-  
10 conditional exemptions and the conditional exemptions  
11 should both receive a careful study. Some of the  
12 exemptions do appear to be intended to reduce the so-  
13 called regressive nature of the tax. We feel some  
14 of the additional exemptions that may well, where they  
15 don't apply, result in some double taxation which we  
16 feel should get serious consideration.

17 Another area of the sales tax which should  
18 receive consideration is the valuation procedures.  
19 Sales tax is, of course, levied on the sale price of  
20 manufactured goods or the importation value and the  
21 sales price can vary substantially depending on the  
22 method of distribution. To lessen this built-in  
23 inequity that one can have the tax authorities have  
24 developed some techniques for valuation in trying to  
25 make an equitable valuation between goods sold to  
26 retailers and goods sold to consumers, et cetera.  
27 These techniques, while they may be worked freely have  
28 not received a statutory sanction and as a result it  
29 is sometimes difficult for taxpayers to be certain of  
30 the proper value and they do not have any appeal right



1 if there is any discrimination as to the valuation.  
2 We do think, therefore, as a two-part consideration  
3 there should be the consideration of the valuation  
4 and the consideration of whether or not an appeal  
5 procedure is warranted.

6 Finally, Mr. Chairman, we feel that the  
7 Minister's discretion should receive careful con-  
8 sideration. At the presenttime the Minister does  
9 have very wide powers in the sales tax administration  
10 and, I think as a general policy it should be  
11 considered whether or not it is right for the Minister  
12 to have wide discretion or whether there should be  
13 some statutory recognition either by statute or by  
14 regulation on some of these matters. I think it is  
15 important on the whole question of sales tax in  
16 deciding what type of sales tax, what level, et cetera.  
17 Much importance should be placed on it as compared  
18 to income tax and experience of other countries should  
19 be carefully looked at. This is quite important.  
20 I think that is all I can say.

21 COMMISSIONER WALLS: Would you also be in  
22 a position to give an estimate of the percentage of  
23 sales tax that is passed on directly to the consumer?

24 MR. TOWNSEND: This is a very difficult  
25 thing for ourselves to do. We have the same problem  
26 of deciding the incidence of the income tax. I am  
27 not sure at all that we feel, as a group, at all  
28 confident to say it is a certain percentage although we  
29 agree it is a very important question and one that  
30 somebody should make an attempt at deciding.





1 THE CHAIRMAN: Mr. Little, I see no reason  
2 for your modesty with regard to sales tax. Mr. Townsend  
3 has quite an understanding of the problems if there  
4 are problems. Without adding to your burden unduly  
5 I would draw your attention to the suggestion which  
6 has been put forward more than once that there be some  
7 co-operation between the federal government and the  
8 provinces in the area of sales tax and the thought that  
9 it ought to be proposed at the retail level and be  
10 collected by the provinces for redistribution or by  
11 the federal government for redistribution in the other  
12 direction.

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1 THE CHAIRMAN: Of course, it is a very  
2 interesting suggestion indeed, and I think it is now  
3 eight provinces which have it. Perhaps this is the  
4 time when if there is merit in the suggestion it  
5 should be pressed, and I commend it to your thoughts.

6 MR. LITTLE: We certainly, Mr. Chairman, have  
7 this proposal under discussion and consideration with  
8 the other alternatives, and in the end result we will  
9 sort out a specific recommendation, either to stay  
10 with what we have, or to move in some direction, and  
11 in the process too we will of course consider the  
12 alternatives, such as turnover tax, or added value tax.

13 THE CHAIRMAN: I daresay that you are aware  
14 that Canada takes in something like two-thirds of the  
15 taxes by the income tax, and a third by consumption  
16 taxes, whereas frequently in European countries that is  
17 exactly reversed. I am not sure whether you feel it  
18 in your competency to speak as to that distribution of  
19 taxes. Of course, in an extreme of that kind it may  
20 be easy to speak to, and we would welcome hearing any  
21 views which may be developed.

22 COMMISSIONER PERRY: Under the final summing  
23 up in the general section a brief paragraph on tax  
24 havens appears. I think it would be particularly  
25 helpful for the Commission to have a comment from the  
26 accountants as to the extent to which these opportuni-  
27 ties arise, (a) under the basic Canadian law, or  
28 (b) under the tax treaties with other countries. One  
29 assumes it is a combination of both, in some cases one  
30 being more important than the other. You might address



1 some comment in that line.

2 Also as to whether there should be a clear  
3 statement of the rules by which you allocate the profits  
4 of an international company. This seems to be an area  
5 in which there is constant argument. As far as I know,  
6 there are no written down rules in the Canadian  
7 arrangements at all. It may be that some written  
8 guidance would be helpful.

9 Also under this general subject you might  
10 comment on the extent to which Canada is a tax haven,  
11 and whether in turn this is a good or a bad thing.

12 MR. LITTLE: Well, Mr. Chairman, it certainly  
13 is our intention to make reference to tax haven opera-  
14 tions, and we will try to be very clear in any presenta-  
15 tion as to what we mean by a tax haven operation. It is  
16 used loosely in the trade, as it were. Any country in  
17 which you operate that has a lower level of taxation  
18 than Canada, I suppose, might properly be called a haven  
19 to that extent. The word is used in its more improper  
20 sense though, of finding a way of escaping tax altogether,  
21 or avoiding taxation, which really properly should have  
22 fallen within Canada. It may be that in respect to the  
23 former we will come to some conclusion as to whether or  
24 not Canada should try to reach out and tax legitimate  
25 operations of our foreign subsidiaries in other coun-  
26 tries, although at the moment this does not concern us,  
27 and we have not come to a final conclusion.

28 What does concern us is the improper use of an  
29 offshore corporation to escape tax that might otherwise  
30 have fallen here. Often I think we will find when we



1 examine this that this is not the law that has made  
2 this possible. It is someone who has ignored the law,  
3 and it is a thing that is very difficult to police,  
4 because it takes place in some other country, but we  
5 will have regard to the questions which you have  
6 raised, Mr. Perry, and we will do our best to be con-  
7 structive, and have concrete proposals in this area.

8 COMMISSIONER GRANT: Mr. Chairman, could we  
9 have a discussion on the subject of the Estate Tax Act  
10 on page 5 of the preliminary submission. The submission  
11 raises four very relevant questions as to the working  
12 of the Act. The first one says: Are the basic  
13 purposes of an estate tax consistent with the objectives  
14 of a sound tax policy for Canada? Now, that is the  
15 question. What we, of course, will be looking for in  
16 the brief will be amplification of that, and no doubt  
17 we will see it.

18 Just in discussing that point, it is sometimes  
19 suggested that an estate tax is not a proper type of tax  
20 for a country such as Canada, a young country. On the  
21 other hand, there is a body of opinion that says that it  
22 is a proper type of tax, particularly when we haven't  
23 got a capital gains tax, that it really to some extent  
24 fulfils the purposes of a capital gains tax.

25 These are some thoughts that have already come  
26 to the attention of the Commission, and I am just pass-  
27 ing them along to you, gentlemen, for what benefit they  
28 might be in preparing the final brief.

29 There is also the question of capitalization  
30 of a life interest in an annuity or a pension, and





1 sometimes that works a great hardship on the widow.  
2 There are instances which have been brought to our  
3 attention in which the estate tax is such that there  
4 are no assets to pay the tax. It has to come out of  
5 the income, or the payments which she receives, and  
6 thereby reduces, of course, her means of livelihood to  
7 that extent.

8 There will be questions that we would like to  
9 have information on, such as optional dates for valuing  
10 the assets, and perhaps a greater extension in the time  
11 for payment of duty. Methods of valuation as regards  
12 the shares perhaps even though they may be listed on  
13 a recognized stock exchange, that listed price has not  
14 always reflected the value that the tax authorities  
15 will place upon the shares.

16 The submission raises the question as to  
17 whether or not the estate tax encourages taxpayers to  
18 seek avoidance by transfer of domicile and other means.  
19 We would like to have as much evidence on this as is  
20 possible for you as an Institute to give us, and then,  
21 are the present exemptions appropriate?

22 There is a book "Recommendations for  
23 Amendments to the Estate Tax Act and the Income Tax  
24 Act", with which you of course are familiar, because  
25 it was issued under the joint patronage of yourselves  
26 and the Canadian Bar Association. It was dated  
27 December of 1962, and I don't believe any of these  
28 amendments have ever been enacted, have they?

29 MR. LITTLE: No.

30 COMMISSIONER GRANT: As far as you know



1 they haven't?

2 MR. LITTLE: No, Well, Mr. Chairman, of  
3 course we welcome this guidance. I am quite sure, Mr.  
4 Grant, that we ought to have informed views and opinions  
5 on these matters that you raise. I think, going right  
6 back to the start, the question of whether the whole  
7 philosophy of estate tax is right or wrong, we should  
8 also deal with this. This, of course, requires us to  
9 consider capital gains tax, wealth tax. The real  
10 purpose that it serves, because we suspect that it is  
11 not a real revenue producer as such. It must have other  
12 purposes to complement other parts of the tax system.  
13 In the end result we will expect to first of all come  
14 to a conclusion as to whether the Estate Tax Act, in  
15 some form, ought to be retained, and if so, then we  
16 will have concrete recommendations, I assure you, on  
17 the things that you mention, and of course any of the  
18 other things that arise in the course of this examina-  
19 tion.

20 THE CHAIRMAN: I would like to raise a matter  
21 which I am very much concerned about, and that is the  
22 consideration as to a rule of law as opposed to the  
23 minister's discretion. In 1949, I think it was, I  
24 think we were all delighted when the discretion went  
25 out of the Act and the rule of law came in. There  
26 seems to be a thought now that perhaps we have held  
27 too closely to the rule of law, and it may be time to  
28 let up somewhat, and permit, for income tax purposes,  
29 the exercise of more discretion.

30



1 That of course goes to the question also I think of  
2 the rulings. The U.S. have got an established method  
3 of giving rulings on income taxes. I think our practice  
4 in Canada has been in important matters to endeavour to  
5 secure something very much like that, and that has been  
6 a rather informal method.

7 You no doubt are already considering both  
8 these questions. Would you like to give us any  
9 thoughts on them?

10 MR. LITTLE: Well, you are quite right, Mr.  
11 Chairman, of course, that we do have this matter under  
12 consideration, and we do expect to take a position  
13 and make a recommendation. I think that even at this  
14 preliminary stage it would not be wrong for me to  
15 suggest that my colleagues on this Committee I think  
16 have a preference for certainty and the specific, the  
17 incorporation in the statute, rather than discretionary  
18 provisions.

19 We are very conscious of the fact that the  
20 accounting profession was very vocal on this subject  
21 at a time when we felt there was too much discretion,  
22 and perhaps if there is anything wrong we brought it on  
23 ourselves.

24 I think our conclusion, Mr. Chairman, is  
25 tending in this direction, that the loopholes, anomalies,  
26 and uncertainties that we have got, which are the  
27 result of failure to amend law promptly, swiftly,  
28 properly, when it needs it, this lack I think perhaps  
29 has focused attention on this matter, and one  
30 concludes that rather



1 than what we have we would have been a lot better off  
2 with discretion.

3 Now, it may be that our conclusion will be that  
4 if we get a better rule of law, that this would be  
5 preferable to more discretion, but we will have an  
6 opinion.

7 THE CHAIRMAN: Then I wonder if we depend for  
8 the administration of taxation primarily on rules of law,  
9 if it is at the same time fair to expect the administra-  
10 tors to tell us in advance how they are going to  
11 administer the Act. In other words, give us advance  
12 rulings. In fact, is it consistent?

13 MR. LITTLE: Well, the need would certainly  
14 become less I would think, Mr. Chairman.

15 THE CHAIRMAN: I think we have no more  
16 questions. Is there anything that comes to your minds  
17 that you would care to put before us along these lines?  
18 Well, if not, let me just wind this up, if I may.

19 I would like to say that I have been very proud  
20 this afternoon to be a chartered accountant, and in that  
21 way to have associated myself with the very able  
22 presentation you have put to us. In fact, as we have  
23 gone on I have wondered if we have been passing an  
24 unfair share of the burden to you. We know that if that  
25 is the case you will discharge it to the best of your  
26 ability. I suggest to you that as we have a most  
27 competent staff, both on the economics side and on the  
28 tax structure side, if there is an area of co-operation  
29 with our staff, we would be very glad if say you, Mr.  
30 Philip, who I believe are serving full time, would care





1 to get in touch with them. It might be profitable.

2 We thank you most sincerely for this afternoon,  
3 and indeed we are looking forward keenly to what you may  
4 produce for us in the autumn. This has been most  
5 enjoyable, and indeed stimulating to us. Thank you  
6 very much indeed.

7 MR. LITTLE: Thank you, Mr. Chairman. I am  
8 sure that all of us feel the same way about this meeting  
9 today.

10 THE CHAIRMAN: Mr. Secretary, is there anything  
11 further?

12 THE SECRETARY: There is no further business  
13 this afternoon, Mr. Chairman.

14 At 9:30 tomorrow morning we will hear the  
15 Canadian Bar Association.

16 ---Adjourned.  
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3 ROYAL COMMISSION ON TAXATION

4 Hearing held in the Board of  
5 Transport Commissioners  
6 Hearing Room, Ottawa, Ontario,  
7 on Friday, the 19th day of  
8 April, 1963.

9 COMMISSION:

10 MR. KENNETH LeM. CARTER -- Chairman

11 MR. J. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S. M. MILNE

15 MR. CHARLES E. S. WALLS  
16  
17

18 LEGAL ADVISER:

19 MR. J. L. STEWART, Q.C.  
20

21 RESEARCH DIRECTOR:

22 PROF. D. G. HARTLE  
23

24 SECRETARY:

25 MR. G. L. BENNETT  
26  
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ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF OTTAWA, ONTARIO

April 19, 1963

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VOLUME No. 4

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Ottawa, Ontario,  
Friday,  
April 19th, 1963.

347

---On resuming at 9:30 a.m.

SUBMISSION OF THE  
CANADIAN BAR ASSOCIATION

APPEARANCES:

Ronald C. Merriam, Q.C., - Secretary.

William Hulbig,

H.P. Lemay, Q.C.

S.E. Edwards, Q.C.

THE CHAIRMAN: Mr. Secretary, we have this morning the Canadian Bar Association, I believe. Would you care to introduce them?

THE SECRETARY: Yes, Mr. Chairman. Mrs. Milne, gentlemen, we have with us the officers of the Canadian Bar Association, and Mr. Ronald Merriam, Q.C., Secretary of the Association, will speak first to the brief and introduce the other officers. I would like to enter the brief of the Canadian Bar Association as Exhibit No. 9 in the record.

EXHIBIT NO. 9: Brief of the  
Canadian Bar  
Association.

THE CHAIRMAN: Thank you, Mr. Secretary.

Good morning, Mr. Merriam, gentlemen. I am delighted to greet you. I suppose that my position here in relation to lawyers is perhaps the acme of achievement by an accountant, given an opportunity to





1 examine lawyers. I am going to be rather generous  
2 this morning and give up that magnificent opportunity  
3 in favour of Mr. Stewart.

4 We try to be as informal as possible at these  
5 hearings, and the Commissioners like to put some of the  
6 questions themselves, and sometimes we ask Mr. Stewart  
7 to ask questions. But it seems to be to be more  
8 in keeping with the appearance of the Canadian Bar  
9 Association to request Mr. Stewart to act as counsel  
10 this morning.

11 Now, Mr. Merriam, we have received your  
12 brief, we were delighted to get it. We have read it,  
13 and it is of great interest to us. The usual practice  
14 up to now is to ask people if they wish to say something  
15 in addition to what they have put before us, summarize  
16 it, explain it, expand on it, and after that we proceed  
17 to ask questions. Is that what you would like to do?

18 MR. MERRIAM: Mr. Chairman and members of the  
19 Commission, I don't know at this moment that I want to  
20 elaborate on the statement that we have already filed  
21 with you, but there are one or two introductory remarks  
22 which I might make if that meets with your approval.

23 I might say, sir, that we feel rather at  
24 home; it is quite the thing for lawyers and accountants  
25 to work closely together, particularly in this field,  
26 and seeing you in front of us makes us feel equally at  
27 home this morning.

28 First, Mr. Chairman, may I express to you  
29 and to the members of the Commission the regrets of our  
30 President, Mr. MacKimmie, on his inability to be present.







1 As you know, Mr. MacKimmie practices in Calgary, and  
2 it was going to be most inconvenient for him to make  
3 a special trip down here this morning, and he has asked  
4 me to express to you his regrets that he is not present.

5 Now, sir, when we received your letter of  
6 December 3rd last we appreciated very much indeed the  
7 invitation which you extended to us to be present this  
8 morning for the purposes of what we understood to be  
9 and still understand to be a rather informal discussion.  
10 It might be of some assistance to the Commission if  
11 I explained very briefly the manner in which the  
12 Canadian Bar Association, which, as you know, is a  
13 national organization, composed of individual lawyers  
14 throughout this country, went about preparing a  
15 statement of what we feel and hope to be of some  
16 substance to present to this Commission. We immediately  
17 took steps, sir, to appoint a special committee of our  
18 Association composed of members of our profession who  
19 are engaged primarily in the tax field and, with their  
20 experience, are knowledgeable individuals in that field.  
21 That committee is composed of Mr. W.J. Hulbig as the  
22 chairman, and with him serving on the committee are  
23 Mr. S.E. Edwards, Q.C., of Toronto; Mr. S.D. Thom, Q.C.,  
24 Toronto; Mr. H.P. Lemay, Q.C., of Montreal; Mr. George  
25 Tamaki and Mr. K. Eaton of Ottawa.

26 It may appear to you that that committee is  
27 very much centralized, and it may be equally obvious  
28 that it is very difficult, if not impossible, to draft a  
29 brief if people are spread throughout the length and  
30 breadth of this country.





1 Mr. Hulbig immediately communicated with  
2 the taxation sections of our Association in each of the  
3 various provinces and received from them their comments  
4 and suggestions. In addition, the whole matter has  
5 been discussed informally and from time to time with  
6 other men in our Association who are also knowledgeable  
7 and interested in the taxation field.

8 So that while the statement that we have  
9 presented to you this morning has been, if you like,  
10 co-ordinated by this committee, it does represent  
11 the wide views of our members across this country. I  
12 might also add, sir, that the statement has been studied  
13 and has the approval of our executive committee, so  
14 that it is presented to you as the official view of the  
15 Canadian Bar Association.

16 Now, a word of explanation. In your letter  
17 of December 3rd I believe you used the phrase that the  
18 purpose of this discussion this morning is to raise  
19 issues rather than to settle them and to focus attention  
20 on the task of the Commission. That, sir, was the  
21 understanding on which this brief was prepared, and  
22 this is the understanding on which we are appearing  
23 before you this morning. I merely make that comment,  
24 sir, for the purposes of the record so that there can  
25 be no possible misunderstanding later on, because we  
26 do look forward to the opportunity later in the year  
27 to again appearing before you with our formal brief.  
28 At that time we hope to be in a position to not only  
29 raise issues but to make suggestions as to their  
30 solution and recommendations for action. At the moment







1 we have, quite frankly, not ourselves reached con-  
2 clusions, we are not in a position to make recommendations  
3 with respect to action which should be taken, and our  
4 sole purpose is to attempt to assist the Commission by  
5 suggesting areas where we think problems may exist  
6 and may exist to the extent that they would merit  
7 consideration by the Commission.

8 With that in mind, if any of us this morning  
9 do express views as a result of discussion which I  
10 believe will ensue, I would like, sir, if it could be  
11 understood that those are our own personal views at  
12 the moment. They may be subject to change even by  
13 ourselves personally between now and the fall, and they  
14 certainly do not necessarily represent the views of  
15 the Canadian Bar Association as they will materialize  
16 later on.

17 Now, I do not purport or pretend to be  
18 a tax lawyer myself, and therefore with the permission  
19 of the Commission I would appreciate it if the Commission  
20 would agree that Mr. Hulbig, Mr. Edwards and Mr. Lemay,  
21 who has now joined me, might take over, if I might  
22 express it that way, and carry the discussion from here.  
23 Thank you very much.

24 THE CHAIRMAN: Thank you very much,  
25 Mr. Merriam, and, by all means, it is agreeable to us.  
26 Certainly we will endeavour to honour the terms under  
27 which you appear. We have tried all week to do that  
28 with the others who have appeared before us, and if  
29 sometimes our questions appear to seek ultimate con-  
30 clusions, it is really only in our





1 enthusiasm for the subject and we are not at this time  
2 trying to do so and you are perfectly free to pull us  
3 up if we do overstep the bounds at this time. It is  
4 to seek those areas where we need ultimately to find  
5 solutions, to ask for your help in identifying the  
6 areas, and perhaps to ask your assistance in seeking  
7 or going some distance in the seeking of solutions  
8 in those particular problems.

9 Now, Mr. Hulbig, you are the chairman,  
10 I believe?

11 MR. HULBIG: Yes, sir.

12 THE CHAIRMAN: Do you have anything you wish  
13 to say to us, or shall we start asking you questions?

14 MR. HULBIG: I think, Mr. Chairman, if you  
15 would start asking questions. I have nothing in  
16 particular to add.

17 THE CHAIRMAN: Mr. Stewart?

18 MR. STEWART: Thank you, Mr. Chairman.

19 Gentlemen, this submission which has been  
20 filed on behalf of the Canadian Bar Association  
21 essentially sets out a number of the questions which you  
22 suggest this Commission should consider. My thought  
23 would be that what we might do this morning is discuss  
24 the questions informally and more or less in the order  
25 in which they are set out in your submission.

26 So that starting at the beginning, at the  
27 top of page 2, I observe that your first heading is  
28 "Tax Legislation" and I think that in the first two  
29 paragraphs under that heading what you are basically  
30 doing is suggesting that perhaps we should develop some







1 new techniques in this country for dealing with tax  
2 legislation. I wonder, for the assistance of the  
3 Commission, if you could develop that a little bit and  
4 tell us whether you consider there is a real need for  
5 such techniques, what the advantages would be, and  
6 whether or not there would be any corresponding dis-  
7 advantages.

8 MR. EDWARDS: Mr. Chairman, Mr. Stewart,  
9 this is a matter which we discussed at some length, and  
10 I think it was the feeling that there was a very  
11 definite need for some continuing group to keep tax  
12 legislation under review. At the time the present  
13 Act was enacted in 1940 it was pretty well co-ordinated,  
14 but from year to year, as specific problems arose,  
15 amendments were made. I think it was our impression  
16 that in many cases the amendments were made specifically  
17 to cover specific problems without sufficient con-  
18 sideration as to how the amendments fitted into the  
19 structure of the Act as a whole and, as a result, the  
20 Act has gradually, over the years, become more and more  
21 out of balance in some areas.

22 So that it seemed to us a solution would  
23 be to have a permanent group established to deal with  
24 tax legislation. I shouldn't say a solution, but I  
25 think this is a matter which should be very definitely  
26 considered, so that legislation could be considered  
27 continuously but by a group which has a perspective over  
28 a lengthy period of time, rather than on a hit and miss  
29 basis, so to speak, which I think has been too frequent  
30 in the past.





1 MR. HULBIG: Mr. Chairman, I think also  
2 there is a question of timing here, the question of  
3 the time it has taken government to react to a specific  
4 situation. Those of us who have been making submissions  
5 over the years have wondered sometimes what happens  
6 to our submissions and also whether they were receiving  
7 consideration, and because of the cloak of secrecy  
8 that exists today, we were not able to receive any  
9 understanding of the process. We pointed out areas  
10 which called for review and perhaps action, and  
11 nothing would happen. We felt that this group might,  
12 as I say, have authority to confer with the public and  
13 perhaps contribute to greater understanding on the  
14 part of the public as to what tax problems were and save  
15 a great deal of time on all sides. I would like to  
16 say something about the length of time it appears the  
17 administration takes to react to situations, and we  
18 felt it might be hoped to cut down that time.

19 THE CHAIRMAN: May I ask if you are thinking  
20 of a committee which would hold public hearings? Would  
21 publicity be useful or not in such a matter?

22 MR. HULBIG: I don't know that our thinking  
23 has progressed that far, sir.

24 MR. STEWART: How would this suggested  
25 system tie in with the traditional attitude towards  
26 budget secrecy in this country and other countries?

27 MR. EDWARDS: Well, I think they would have  
28 to be modified to take account of that, Mr. Chairman.  
29 I think there are many matters which are dealt with in  
30







1 the annual revisions of the Income Tax Act which are  
2 not referred to in the budget, what are sometimes  
3 called the technical amendments but which are sometimes  
4 very far-reaching. I think on matters which involve  
5 changes in rates or significant developments which  
6 the Minister of Finance considers should be presented  
7 in the budget, that that would have to take priority  
8 over this committee. But I would think that the  
9 Minister of Finance would have available to him this  
10 committee for assistance and recommendations in  
11 connection with his budget.

12 MR. STEWART: In any event, I take it from  
13 your second paragraph that you would consider after the  
14 budget came down there should be ample opportunity  
15 afforded to members of the committee to comment on the  
16 suggested provisions and the consequent legislation.

17 MR. LEMAY: That would seem to defeat the  
18 suggestion just made, to make sure that the same  
19 logic permeates the whole Act in its entirety and  
20 modifications will not be made that do create problems  
21 from a technical point of view, that is outside  
22 of rates of taxes which the Minister of Finance may  
23 require to finance his own budget. But the rate  
24 structure is mentioned only in a few sections of the  
25 Act and the remainder of the Act concerns its  
26 application.

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1 THE CHAIRMAN: Mr. Stewart, I think my  
2 understanding is correct, that this concerns all tax  
3 legislation, not just the income tax.

4 MR. LEMAY: That is right.

5 MR. STEWART: But is there not a problem  
6 beyond that of rates? If, for example, the budget is  
7 going to contain a new type of tax, or if there are new  
8 provisions imposed which radically transform the tax  
9 picture, are you suggesting that that type of thing  
10 should be disclosed and discussed before the budget  
11 comes down?

12 MR. LEMAY: Not items which are the  
13 government's secret normally, as to tax rates, because  
14 some taxpayers would take advantage of that unduly, and  
15 others would not be in a position to do so. But  
16 generally, let us imagine that in 1960, I believe  
17 Section 11 was amended to enable a taxpayer who had  
18 received a loan from his company to reimburse the  
19 company. Well, that is a type of legislation that does  
20 not affect the tax structure as such, but re-established  
21 the equilibrium of justice that should permeate the  
22 entire Act. There are other amendments to similar  
23 sections that can be done, and legislation can be  
24 studied by such a group of persons that would constitute  
25 either a consultative committee, or whatever you might  
26 call it, but, as Mr. Hulbig was saying, it should be a  
27 group of persons that have a view of the history of the  
28 Act, to see its evolution, and not just make amendments  
29 for the sake of making amendments and, let us say,  
30 filling a hole by opening up a new one.







1 MR. STEWART: Yes, well I am just raising  
2 the question I think, Mr. Lemay, whether there would be  
3 matters other than rates which the administration would  
4 not wish to disclose to the public, or to the Committee  
5 you are suggesting, before the budget actually came  
6 down?

7 MR. HULBIG: Well, I think it is perfectly  
8 clear, sir. Obviously there are areas. I don't think  
9 we can define them all here, but certainly we have  
10 precedent in the introduction of the Estate Tax Act,  
11 leaving it lie fallow for a year or so, and we think the  
12 same applies in many areas, where something similar  
13 could be done, or the ideas that are being generated in  
14 the Department of Finance could receive more public  
15 study before being adopted. I would like to see this  
16 as a two-way flow. There is a certain amount of  
17 expertise that has grown up in the country, and we would  
18 like to see it available before the fact, rather than  
19 after the fact.

20 COMMISSIONER PERRY: Do you feel that the  
21 proposals made in paragraphs 1 and 2 involve substan-  
22 tially new departures from the procedures here, or  
23 whether in effect they are not simply elaborations of  
24 present procedure? Being a former official of the  
25 Department of Finance, I would say that paragraph 1 is  
26 the same position as at present. Nor perhaps would the  
27 conferring with the public have the implications that  
28 you have in mind.

29 I would suggest that in your brief you  
30 elaborate the ways in which *your proposals depart*  
~~you think of these departures~~





1 from present practice, and the extent to which it  
2 represents a novel development.

3 MR. EDWARDS: On that point I think the  
4 suggestion we put forward for consideration would be  
5 that this group might be given its own quarters, with  
6 its own chairman, and put on this job full-time, with  
7 people who have a background in the Departments of  
8 Finance, National Revenue, and Justice, but who would  
9 become a full-time, permanent tax legislation committee.  
10 I think that is one of the principal changes. I think  
11 that you are much more familiar than we are with it.

12 COMMISSIONER PERRY: I think I can anticipate  
13 one or two of the questions that the administration are  
14 going to ask, No. 1 being, where are they going to get  
15 the people?

16 MR. HULBIG: Of course, that is one of the  
17 reasons that has generated this question, the fact that  
18 we seem to have too few people. They are very able and  
19 extraordinary people, but the problem is that they are  
20 too busy.

21 THE CHAIRMAN: Perhaps such a group as you  
22 have in mind would in fact receive the submissions that  
23 are customarily addressed to Ministers. In fact they  
24 would serve as an alter ego of the Minister in this  
25 particular field. Is that along the lines of your  
26 thinking?

27 MR. HULBIG: Not necessarily, but it could  
28 very well happen in that fashion. I think that we  
29 should direct ourselves along the lines we have  
30 suggested, and I think we get your drift in this







1 connection, so we should go away now and think about it  
2 very carefully, and come up with more specific sugges-  
3 tions.

4 THE CHAIRMAN: Thank you.

5 MR. STEWART: I take it then that the reasons  
6 for the suggestion in the third paragraph under this  
7 heading are essentially the same as motivated the  
8 changes suggested in the first two paragraphs?

9 MR. HULBIG: Yes.

10 MR. LEMAY: The only thing is that under that  
11 paragraph there might be economic considerations, whereas  
12 under paragraph 2 there might be just legal considera-  
13 tions. It could be.

14 MR. STEWART: Going on to the fourth paragraph,  
15 where you raise the question whether tax legislation  
16 should be concerned with general principles, and whether  
17 so far as possible lengthy and complex provisions  
18 should be avoided, could you give us some background  
19 comments on that suggestion?

20 MR. EDWARDS: Mr. Stewart, I think that it is  
21 very difficult to generalize on this topic, but there  
22 are certain areas, for example, the sections relating  
23 to corporate distributions and designated surpluses,  
24 in which there are numerous lengthy sections, which  
25 defy almost anyone to understand them, and I think this  
26 is tied in with the earlier comment to some extent,  
27 because I think these provisions have probably grown  
28 out of rather hasty consideration of specific problems.  
29 Well, I don't know, but it would appear that these  
30 sections have become so complex that they create new





1 problems, which require a new section under the present  
2 approach to tax legislation, which is one of attempting  
3 to cover every possibility, every possible conceivable  
4 situation.

5 MR. STEWART: Do you think that it would be  
6 possible to achieve real simplicity in the legislation  
7 without either restoring some degree of administrative  
8 discretion, or possibly setting up administrative  
9 tribunals, which would have authority to decide ques-  
10 tions of application?

11 Mr. LEMAY: If we use the same example that  
12 my confrere was just using, and dealing with Sections  
13 81, 82, 88 and 89, on distribution, why does the Act  
14 allow the taxpayer to actually issue preferred stock,  
15 and redeem them? In fact it is just a matter of  
16 procedure, that it is not necessary if there were a  
17 principle in the Act saying that if you have done  
18 things that purport to do these, that is enough, but  
19 then to satisfy the amendment that was put into the  
20 Act as such for distribution of surplus, you have to  
21 actually in many instances amend your Letters Patent,  
22 obtain additional authorized preferred stock, issue that  
23 stock, and redeem it. Now, that is cumbersome for  
24 nothing, and if, without going into specifics like this,  
25 for example we could remain with the principle of  
26 Section 3, and try to deal with surpluses in the same  
27 way, I think with a better understanding and a better  
28 philosophy in the air.

29 MR. STEWART: Let me ask a question which I  
30 think is related here to this point. Now that we have had







1 the rule of law expressed in the Income Tax Act for  
2 some years, how do you think that has worked out? Do  
3 you prefer the rule of law now in effect to the existence  
4 of administrative discretions?

5 MR. LEMAY: Well, could I use as an example the  
6 jurisprudence set up by the Supreme Court of Canada, and  
7 that is of capital gains. These principles are pretty  
8 well examined now that the courts will examine the  
9 intentions of the taxpayer at the time of acquiring the  
10 assets, his conduct during the ownership, and the way he  
11 has disposed of these assets. Now, that is the rule of  
12 the law as interpreted by the courts, and everyone con-  
13 versant with the decisions of the court could pretty  
14 well determine whether a gain is taxable or not, whether  
15 it is ordinary income or non-taxable income. There will  
16 be always the fringe cases, where the courts have to  
17 decide, but if you try to take all those cases that  
18 have been examined by the courts for the last 40 years  
19 on the subject, you would probably have to write a book,  
20 whereas actually the evolution of the jurisprudence has  
21 reached such a point that it is pretty clear what is  
22 capital gains, and that is a rule of law.

23 MR. STEWART: Of course, Mr. Lemay, this  
24 process does take a little time, doesn't it?

25 MR. LEMAY: Yes, but I imagine that if every  
26 time that a group of legislators want to make a  
27 proper definition, and they have to define words that  
28 they have used as definitions for other words, instead  
29 of having Section 139, as you have it, you may have a  
30 whole book to replace Section 139 actually, and you would





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1 have still to refer to the court to determine whether  
2 those statutory definitions mean exactly what they --  
3 well, what they appear to mean.

4 THE CHAIRMAN: Mr. Stewart, might I ask these  
5 gentlemen if my understanding of what they say is  
6 correct, namely that the area of doubt with regard to  
7 capital gains is becoming narrower as time goes on?  
8 If in fact a lawyer finds it easier now to advise his  
9 client as to what is likely to be taxed in respect of  
10 such transactions than he could, say, ten years ago?

11 MR. LEMAY: Very much so, Mr. Chairman. It is  
12 much clearer, and the jurisprudence has really brought  
13 in definitions.

14 MR. STEWART: Mr. Lemay, would you agree that  
15 nevertheless there appear to be a remarkable number of  
16 these, what you call fringe cases?

17 MR. LEMAY: Well, I believe the taxpayers will  
18 take chances all their life, and try to get away with  
19 taxes, and they are testing their actions before the  
20 court.

21 COMMISSIONER PERRY: I wonder if I might ask  
22 a more general question here, in an attempt to refine  
23 this issue a little bit. Is it not true that the  
24 essence of your suggestion here is that the treatment  
25 of rather complicated situations in business, and in  
26 tax practice, be made more simple in the Act?

27 Or, putting it another way, is it not true  
28 that the Act, as it applies to five or six million  
29 people who have never heard of undistributed surpluses,  
30 and never will in their lives, is really quite







1 presentable and readable and forthright? The first  
2 60 sections of the statute, in other words, are  
3 basically unchanged since the revision of 1949. So,  
4 as I hear your comments, they apply primarily to a  
5 very esoteric kind of tax problem, which is encountered  
6 by lawyers and accountants in their daily practices, ①

7 I don't minimize these problems one bit, but is it  
8 not true that this is the area in which you are really  
9 seeing the complications, and that by nature these  
10 really are extremely complex situations?

11 MR. HULBIG: I think that is true, Mr. Chairman.  
12 Now, I think what we are trying to say is that we have  
13 become disturbed by the trend over the years to  
14 proliferate and what we consider because of the lack of  
15 opportunity in our system to find out beforehand what  
16 has been thought of, and then having to struggle with  
17 it afterwards. Maybe there is nothing that can be  
18 done, but we are saying the Act is growing bigger and  
19 more longer and more complex divisions seem to be  
20 brought in annually, or semi-annually. Is there some-  
21 thing that can be done to simplify the treatment?  
22 We have heard so much about business decisions, and  
23 how much they are affected, and how much time is being  
24 spent which might be more profitably spent elsewhere,  
25 and that sort of thing.

26 THE CHAIRMAN: We are bound to be concerned  
27 with regard to the matter Mr. Stewart raises, namely  
28 rule of law as opposed to Ministerial discretion.

29 MR. HULBIG: Once again, can we establish  
30 absolutes in the thing? I don't think we can. It is





1 merely a matter of which end you are approaching it  
2 from.

3 COMMISSIONER GRANT: May I make an observation,  
4 Mr. Stewart? Would it be approaching the thinking of  
5 you gentlemen if it were to be put in this way, that by  
6 virtue of a series of decisions which have now come  
7 down in the interpretation of some of the controversial  
8 sections of the Act, that it might be possible to  
9 rewrite certain sections of the Act in the light of the  
10 law as it now stands, by virtue of the decisions which  
11 are now in the reported cases?

12 MR. LEMAY: I have been concerned with new  
13 legislation, and the fact that the tax Act might grow  
14 to be a volume of a few inches thick. What interpreta-  
15 tions might have been given to the Act up to now have  
16 failed to clarify those parts where there was  
17 uncertainty, and where we have reached a point where we  
18 are a little more certain about the interpretation of  
19 the Act we might go backwards if we change those  
20 sections, trying to write in what judgments there are,  
21 because we will use different words, then we will have  
22 to have the courts interpret them again.

23 COMMISSIONER GRANT: You see a danger in  
24 that?

25 MR. LEMAY: Yes.

26 MR. EDWARDS: There might be cases where that  
27 may be so if the decisions were leading to some result  
28 that was considered to be undesirable for some reason  
29 relating to policy, but I think Mr. Lemay's point is  
30 that unless there were some such trend in the decisions,







1 the Act should be left as it is.

2 One example that we have mentioned in our  
3 brief, for example, is the case of deductions. It may  
4 be that the rule relating to deductions should be  
5 changed in some way in the light of previous decisions,  
6 but I think you have to look at each problem on its own.

7 COMMISSIONER GRANT: Yes, of course you do.

8 MR. STEWART: May I suggest this, that I  
9 think it would be very helpful to this Commission if in  
10 your ultimate submission to it you could give some  
11 concrete examples of how you think the legislation could  
12 be improved by the use of general principles, rather  
13 than complex provisions. In other words, if you take  
14 particular situations in the present legislation where  
15 a particular section may run to several pages. If you  
16 think that what is dealt with there is capable of being  
17 dealt with by the statement of a general principle, it  
18 might be of considerable assistance to the Commission  
19 for you to indicate that, and without attempting to  
20 draft the new section, just indicate what the general  
21 principle in your opinion should be. In other words,  
22 what I am getting at is this. It is relatively easy  
23 to say that what we need in the legislation are expres-  
24 sions of general principles. It may be more difficult  
25 to take particular provisions that you think are  
26 unnecessarily complicated at the moment and deal with  
27 the point on the general principle method.

28 Now, Mr. Chairman, I may be going too far in  
29 suggesting that that would be helpful to the Commission?

30 THE CHAIRMAN: No, I don't think you are going





1 a bit too far.

2 We have in the tax laws a tremendous contrast.  
3 The Excise Tax Act virtually operates on what I think  
4 you mean by general principles. I am not too clear. It  
5 operates almost entirely on the exercise of the discre-  
6 tion of the Minister and his officers. The Income Tax  
7 Act at one time contained something over 70 references  
8 to the discretion of the Minister. Now I think there  
9 are something like one or two. Do we have a better  
10 Income Tax Act now than we had before? Do we have a  
11 good Excise Tax Act? Perhaps one is good for one situa-  
12 tion and the other is good for the other.

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1 But certainly where lawyers would be of immense help  
2 to the Commission is to give us their views as to where  
3 the Income Tax Act should be tightly buttoned up on  
4 rule of law or whether there should be some relaxation.  
5 Certainly more discretion would support more simplicity  
6 but would it avoid uncertainty?

7 COMMISSIONER PERRY: Mr. Chairman, I wonder  
8 if I could put this situation as I see it, and I won't  
9 say as a layman but as a non-lawyer. It seems to  
10 me that the first decision one has to make is whether  
11 one is going to have a mass of words on paper for the  
12 taxpayers in the application of tax laws. Is it  
13 the most satisfactory way to carry out a satisfactory  
14 compliance with the tax laws that somewhere things  
15 have to be written down? Then I go on from there  
16 and say, having crossed that bridge, who best can write  
17 these words down? The administration, the legislature  
18 or the courts? Obviously all three are going to have  
19 some hand in it. Then <sup>if</sup> it is mainly a question of  
20 emphasis, who is going to put the majority of these  
21 words on paper? And you can visualize mixes in which  
22 the emphasis is quite different, with quite different  
23 results. I must say that this is the way I visualize  
24 the main proposition has to be answered. First of all,  
25 decide how many words have to be put on paper, whether  
26 we go back to an underground grapevine situation of  
27 communication which we had at one time or to have  
28 some codification of some kind or other, and then decide  
29 where that codification is to take place.

30 MR. LEMAY: As a matter of principle, take





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1 Section 12(1)(a). There are very few words there,  
2 and yet the admissibility of expenses is contained in  
3 those few lines. That is a nice statement of principle,  
4 and unless expenses are allowed as to non-business  
5 or non-production expense, they come under Section 12  
6 (1)(d). But then there is a flaw in 12 (1)(d) because  
7 under the regulations under 11(1)(a) sometimes you  
8 cannot claim capital cost allowance under 12(1)(a).  
9 It is to try to keep it within the rule of law that  
10 all taxpayers should claim the same treatment and  
11 without going into pages and pages of explanations.

12 COMMISSIONER PERRY: In my concept this is  
13 an area where a lot of wording has been put on paper,  
14 in this case by the courts sometimes coming out with  
15 results which some taxpayers feel are not desirable.

16 MR. STEWART: This is a subject which I  
17 am sure we can discuss for the balance of the morning,  
18 but I think it would be helpful to the Commission if  
19 we could get on and attempt to cover most, at any rate,  
20 of your submission.

21 Your next heading is that of "Civil  
22 Liberties", and I wonder if you could enlarge on what  
23 you say there and describe the general nature of the  
24 problem which you think that the Commission should  
25 consider.

26 MR. HULBIG: This is one of Mr. Lemay's  
27 special enthusiasms, I think.

28 MR. LEMAY: Well, there have been cases  
29 where the Department searches the premises of tax-  
30 payers, undoubtedly with good reasons, and we are not







1 questioning the right of the Crown so to act at all.  
2 But the procedure which is used is a long way away  
3 from the procedure in criminal matters. There you may  
4 have a group of members of the R.C.M.P. and the  
5 special investigation branch of the Department of  
6 National Revenue going into the residence, domicile,  
7 business premises, banks and all places where a tax-  
8 payer may do business. It may involve, let's say, a  
9 group of 50 persons one morning who go down to various  
10 places and cart away indiscriminately everything they  
11 think might be useful for the purpose of the search.  
12 Up to there, if it is a matter of bringing in evidence  
13 to show that the taxpayer has evaded the Act, the Crown  
14 still acts within the authority granted by the Act.  
15 But what has happened to the procedure in so doing?  
16 Any information I have heard and I know of, I have  
17 never heard that the procedure was carried out  
18 differently; the affairs or the things of the taxpayer  
19 would be carted away without a process of seizure,  
20 listing all the effects being taken away, being left  
21 with the taxpayer at the time of the seizure.

22 That is one point. Whoever seizes normally  
23 leaves a receipt with the person against whom the  
24 seizure was taken. We don't have any disposition in  
25 the Act actually to provide such protection of a  
26 citizen. The taxpayer, in fact, does not know what  
27 has been taken away completely. In the actual course  
28 of doing it it seems that the Department makes some  
29 sort of an inventory so many days which I cannot  
30 stipulate after a seizure has taken place and it does





1 not seem to complete the inventory that the taxpayer  
2 should have in order to enable him to prepare a case,  
3 if he has a case to prepare, and in these circumstances  
4 he has a case to prepare, and he may require two  
5 documents which have been taken from him and which  
6 he needs to prepare his appeal either against an  
7 assessment or other procedure.

8 The secrecy of the procedure also prevents  
9 generally the taxpayer, through his representatives,  
10 whether they be his chartered accountants or his  
11 lawyers, to be in a position to work confidentially  
12 with certain documents which have been seized and  
13 carted away. An examination of the documents is  
14 always made, presently, under the scrutiny and under  
15 the eyes of observing officials of the Department,  
16 which undoubtedly would cause prejudice to the taxpayer  
17 in preparing his own defence, as he has a right to  
18 under the law generally.

19 The absence of provisions in the Act  
20 actually has left open this area which is already  
21 covered by appropriate sections in the Criminal Code,  
22 and it seems that the Commission would do well in  
23 examining the situation and finding out what could be  
24 enacted in order to ensure the proper safeguards  
25 for all concerned.

26 That is one aspect of the comments.

27 MR. STEWART: May I take it that in your  
28 final submission you will be making concrete proposals  
29 in this connection?

30 MR. HULBIG: We will do our best.







1 COMMISSIONER MILNE: Mr. Stewart, may I ask  
2 a question here?

3 Personally I have not known too many indivi-  
4 duals where seizure has occurred, but I do know  
5 specifically of three within the last two years, and  
6 certainly this point that you made about leaving a  
7 receipt for the documents taken, even an unfinished  
8 personal letter, is an important thing. But really  
9 what I want to ask you -- and this may be something that  
10 is simply a lack of knowledge on my part -- concerns  
11 the time in which a case, if there is a case, would be  
12 made. You can understand that an individual,  
13 where seizure has taken place, certainly suffers mental  
14 anguish and it might throw a reflection on him or her  
15 whether or not there is a case. The reflection will  
16 exist in the minds of people for some time that this  
17 could be so.

18 Now, is there a length of time in which a  
19 case must be brought against that person or can it go  
20 on indefinitely?

21 MR. LEMAY: The only principle contained  
22 about the action of the Minister, I believe, is in  
23 Section 46, where the Minister is supposed to assess  
24 diligently the return of a taxpayer. Now, as a matter  
25 of fact, cases have gone to two, three, four, five  
26 years before being assessed and before the taxpayer  
27 knows what he should expect in the matter of taxes.  
28 The Department has also taken sometimes years after a  
29 search to determine what additional taxes or penalties  
30 and interest should be assessed against the taxpayer,





1 and I have been wondering if, with the resources that  
2 the government has at its disposal, more people could  
3 not be employed in those branches of the Department of  
4 National Revenue so as to ensure a more diligent action  
5 in respect of every such case. Undoubtedly, there is  
6 room for improving it.

7 COMMISSIONER BEAUVAIS: Would you state a  
8 time limit, Mr. Lemay, in which to take action?

9 MR. LEMAY: Well, in my early years  
10 "diligently" meant something, but according to what has  
11 taken place recently, it may mean anything up to ten  
12 years. It takes a longer time than it would take if  
13 there were more people in the Department.

14 COMMISSIONER BEAUVAIS: Would you suggest  
15 inserting in the Act a time limit?

16 MR. LEMAY: Personally I think there should  
17 be a time limit. Inasmuch as the taxpayer has a burden  
18 to do certain things within a time limit, then the  
19 Department should also do the same thing.

20 THE CHAIRMAN: I presume the taxpayer would  
21 have the right to waive, as I think the practice is in  
22 the States. I suppose when he is required by the  
23 special investigation branch, he is pretty apt to agree  
24 to such an extension.

25 MR. LEMAY: There was something about a  
26 waiver, about a four-year time limit, but that is on a  
27 form prescribed by the Minister, and once you have  
28 waived on that form, then you waive all your life. I  
29 tried to devise a form, it was new legislation,







1 and send it to the Department and say we are allowing  
2 the Department an additional six months to examine the  
3 situation, we think it will mean diligent operation,  
4 and the departmental officials were obliged to say  
5 they were not allowed to accept that, it must be on a  
6 form approved by the Department, and the taxpayer has no  
7 protection as to the four-year time limit.

8 MR. STEWART: Gentlemen, could we deal with  
9 this question of departmental interpretations? The  
10 first question you raise is whether the Department  
11 should be asked or required to publish interpretations  
12 of the legislation or, I suppose, the regulations. At  
13 the present time and as a result of the thinking that  
14 you have given to this up until now, do you consider  
15 that this would be desirable?

16 MR. HULBIG: I don't think, sir, we can  
17 speak in terms of committing anybody at this time. I  
18 think we probably have different views among us.  
19 All we can say is that it is a lively subject which  
20 has received a lot of consideration.

21 MR. STEWART: What about the question of  
22 advance rulings?

23 MR. HULBIG: I think I must make the same  
24 reply, sir.

25 THE CHAIRMAN: I presume, Mr. Stewart,  
26 that when one gets into this area it goes hand in hand  
27 with granting some discretion in the Act. If one is  
28 going to ask for advance rulings, it is really a  
29 statement by the Department as to how they are going  
30 to operate.





1 MR. HULBIG: Isn't that inherent in the  
2 system, in any event, whether you give the Minister  
3 discretion or not? It is merely saying you tell us  
4 how to act in this situation or do we have to go to  
5 court to find out? I am afraid I can't express the  
6 view of the Committee whether we agree or whether it is  
7 advisable. It has many endearing features to those who  
8 are not as close to the actual operation as others.

9 COMMISSIONER BEAUVAIS: Don't you think it  
10 is general practice to ask the Department for an advance  
11 ruling?

12 MR. HULBIG: Yes, as a convenience. It is  
13 a question of whether it is for all to see.

14 COMMISSIONER BEAUVAIS: I was thinking of  
15 special cases.

16 MR. HULBIG: Yes. But it is not theoretic-  
17 ally binding, although in practice it is generally  
18 observed. But it disturbs people, the fact that they  
19 may get a ruling and it is not binding. It doesn't  
20 disturb the lawyers who practise near to Ottawa, but  
21 it may disturb those who practise further away, find  
22 it difficult to make an approach.

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1 THE CHAIRMAN: Then I think, Mr. Hulbig,  
2 that we have all found from time to time that the  
3 Department has decided not to act in respect to  
4 certain matters, or they have run short of staff, and  
5 there is no way by which the taxpayers can acquire  
6 any of these things.

7 MR. HULBIG: Exactly sir.

8 THE CHAIRMAN: That may, for all I know, be  
9 a perfectly happy way to leave it, but it would seem  
10 to be a compromise, wouldn't it?

11 MR. HULBIG: It would seem to me to chart  
12 a course between two evils if we can.

13 COMMISSIONER PERRY: This question of the  
14 degree to which these rulings are binding is fairly  
15 crucial. My recollection is that the American rulings  
16 are not binding, that the administration reserves the  
17 right to withdraw a ruling. In practice they very  
18 seldom do, but in law they are not binding.

19 MR. LEMAY: But one improvement that could  
20 be made would be publication of the Department's  
21 interpretation. For instance, as part of the Assessor's  
22 Guide. Actually, the Department makes it a secret  
23 as to how it interprets certain sections. If you are  
24 familiar enough with the practice of the Act, you know  
25 that whatever the Department does it can't go on  
26 indefinitely contradicting decisions of the Supreme  
27 Court of Canada, but yet for general application the  
28 taxpayer should be in a position to know how a different  
29 set of circumstances are actually given interpretation  
30 by the Department. There is no use being secretive





1 about that. It is the way the Department is going to  
2 assess a taxpayer under the Act. Why not say it  
3 publicly?

4 THE CHAIRMAN: I am not altogether sure  
5 that it is particularly fair to expect the Tax  
6 Department to make a declaration of that kind in advance.  
7 I think that we want to be careful that we are being  
8 fair in these matters. The Department is in the  
9 position of replying to such requests. The law is  
10 as clear as it is possible to make such a law,

11 We may eventually decide to dispute the  
12 matters. Why should they commit themselves in advance,  
13 any more than you should commit yourselves in advance?  
14 We are parties, and each side should be equal.

15 MR. LEMAY: The taxpayer may not become  
16 subject to the penalties under Section 56 for instance.  
17 If he knows that the Department is going to do certain  
18 things, he might decide to contest the Department's  
19 decision openly, and of course there would be no  
20 penalty under Section 56 for doing so. But he may  
21 make an error, by not doing some things because he  
22 ignored the Department's attitude, which is quite  
23 different from a ruling.

24 MR. EDWARDS: Mr. Chairman, I think that  
25 one aspect of this is that the rulings made facilitate  
26 the progress of business decisions, because in many  
27 cases taxpayers are reluctant to proceed with some  
28 steps which they feel as a business matter they should  
29 do, but because of the fact there is some tax danger  
30 they don't wish to do it. Now, maybe the Commission







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1 should consider whether in the interests of furthering  
2 the business of the country people should be able to  
3 determine at least what position the Tax Department  
4 will take if they take a particular step.

5 THE CHAIRMAN: Yes, I think that is a strong  
6 argument in favour of it.

7 COMMISSIONER PERRY: You might not be  
8 furthering the business of the legal profession though.

9 MR. EDWARDS: No, that is secondary.

10 MR. STEWART: We come to the main heading  
11 "Income Tax", and your first subheading is "Assessment  
12 and Appeal Procedures". Are there any points which to  
13 you are of particular importance under that particular  
14 heading, or subheading, of Assessment and Appeal  
15 Procedures, because if not, and having regard to the  
16 time element, I would rather move on to the next heading,  
17 which is "Tax Evasion and Avoidance"?

18 MR. LEMAY: There would be one point,  
19 Mr. Chairman, and that is that the Act really offers  
20 no relief to the taxpayer who, for any reason whatsoever,  
21 had let the 90 days go by. Now, in the Province of  
22 Quebec, for instance, a defendant in a case might have  
23 gone to the point where default is taken against him,  
24 where even judgment has been entered against him. The  
25 judgment has become executory, and he learns of the  
26 judgment at the time seizure is made of his assets.  
27 If he comes to court with a proper petition, explaining  
28 the reasons why he has not offered a defence, and  
29 offering his defence at the time, the courts normally  
30 will enable him to make either an opposition to judgment,





D-4 1 or what is called under the Civil Procedure Code of  
2 the Province of Quebec, a civil petition.

3 Now, actually it happens that taxpayers  
4 are being penalized because they want to delay on the  
5 91st or 92nd day, and the Minister is not empowered  
6 to say, "All right, I accept your reasons as good and  
7 valid reasons", and there is no relief for that.  
8 Now, it seems that the taxpayer should be allowed,  
9 within such reasonable time as he learns of that default,  
10 to apply either to the Deputy Minister by simple  
11 petition for relief and authorization to file notice  
12 of petition to start with, and if his default is the  
13 failure to appear either before the Tax Appeal Board  
14 or the Exchequer Court, then he should have authorization  
15 to petition those two bodies to be allowed to enter  
16 his appeal.

17 Actually there is no relief whatsoever in  
18 the Act.

19 MR. EDWARDS: I think in England the court  
20 has a discretion to grant an extension of time if there  
21 are circumstances which warrant it, Mr. Chairman.

22 COMMISSIONER PERRY: Just for the record,  
23 Mr. Stewart, I wonder if you should not ask whether in  
24 (c) the word should not be "objections", rather than  
25 "objectives"?

26 MR. LEMAY: Yes.

27 MR. STEWART: Well now, when we come to this  
28 question of tax evasion and avoidance --

29 MR. LEMAY: Mr. Stewart and Mr. Chairman,  
30 there is this question of limitations on







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1 re-assessments also, and I am sure that a few members  
2 of this Commission have read the case of the Minister  
3 of National Revenue versus Maurice Taylor, as Respondent,  
4 and up to that judgment everyone that I know of who is  
5 interested in the Income Tax Act thought, and was under  
6 the impression that there was a four-year statutory  
7 limitation on everything else but fraud in favour of  
8 the taxpayer. Now, in the Taylor case the word  
9 "misrepresentation" appearing in Subsection IV of  
10 Section 46 has been interpreted as referring to  
11 innocent, as well as wilful or fraudulent representations,  
12 which means that an innocent party -- and as an  
13 example, anyone can forget let us say a bank balance  
14 of \$25 in a savings account, and having omitted to  
15 report the interest accruing in that forgotten bank  
16 balance of let us say 35 cents per annum, would be  
17 subject to re-assessment actually under that judgment.

18 Now, up to that time everyone that I know  
19 was under the impression that the Department could re-  
20 open and re-assess only in the case of fraud. It  
21 seems that someone should examine the possibility of  
22 stipulating restriction and limitation of action on  
23 the part of the Crown in favour of the taxpayer where  
24 there is innocent error or misrepresentation.

25 MR. STEWART: Mr. Chairman, I know that these  
26 gentlemen are not really trying to avoid the discussion  
27 of tax avoidance. Perhaps coming to this heading you  
28 could describe in general terms the problems which are  
29 referred to, or implicit in these three questions that  
30 are raised in your submission?





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1 MR. EDWARDS: I think, Mr. Chairman, that  
2 this question arose -- there has been a certain amount  
3 of discussion of this point in legal publications and  
4 addresses in the last few years. There have been  
5 cases particularly in connection with the corporate  
6 surplus distributions which I think our feeling is that  
7 it has arisen out of the type of legislation that  
8 exists in that area, under which there has been a  
9 lot of tax avoidance, or attempts at tax avoidance, and  
10 I think that the question has been raised in certain  
11 cases as to how far tax avoidance can go before it  
12 becomes tax evasion.

13 I don't know that the principles are very  
14 clearly laid down anywhere at the present time. I  
15 think generally that the question of tax avoidance  
16 arises where there are two tax results for a similar  
17 type of transaction, depending upon which way you do it.  
18 A tax may be imposed at a heavier rate, for example,  
19 on a particular type of corporate distribution if it  
20 is made under Section 28(11) out of a designated surplus.  
21 Or some method of corporate distribution might be made  
22 entirely tax free, and it becomes quite obvious that  
23 the people who are going to enter into this type of  
24 transaction will attempt to bring themselves into the  
25 tax-free category, while somebody else, who is achieving  
26 the same result, is taxed in a very heavy way because he  
27 has not obtained the best advice.

28 Now, there are borderline cases, and I  
29 think they are only borderline cases possibly where  
30 all the facts have not been fully disclosed, where the .







1 suggestion has been made that if tax avoidance becomes  
2 tax evasion it should be subject to prosecution. I  
3 don't know how far this Commission can go in delineating  
4 the dividing line.

5 COMMISSIONER PERRY: One seems to observe  
6 that this year's tax evasion is next year's tax  
7 avoidance. These are not really finite concepts.

8 MR. LEMAY: Maybe that phrase, tax  
9 avoidance, hinges on the principle of strict inter-  
10 pretation of a statute such as a taxing statute.

11 THE CHAIRMAN: Well, wouldn't you say that  
12 the difficulty is probably caused by the word "improper"  
13 in Section 138, or the words "unduly or artificially"  
14 in Section 137? I think it is necessary to read those  
15 to bring the transactions under Part 6. Isn't that  
16 correct?

17 MR. LEMAY: Well, if the word "improper"  
18 was taken away, then the situation of the taxpayer would  
19 certainly worsen, because tax avoidance would be  
20 considered in about the same way as tax evasion.

21 THE CHAIRMAN: But what I was hoping to  
22 express to you gentlemen, who are experts in the use  
23 of words for the purpose of statutes is, would it not  
24 be possible to find better words than those to which  
25 I have referred? Don't those words leave a tremendous  
26 area of uncertainty, and if the law is going to depend  
27 on this kind of words, are we going to be able to  
28 distinguish between what you refer to as avoidance and  
29 evasion? It seems to me that that is where the  
30 difficulty lies.





1 MR. LEMAY: It used to be recognized by  
2 the courts in very early jurisprudence that the taxpayer  
3 had the right to arrange his affairs within the Act  
4 so as not to attract taxes, and judgments have gone so  
5 far as to say that in England the Department was putting  
6 its shovel in the taxpayer's store.

7 In this case it might be arranging by  
8 acting legally, and it comes to the point where the  
9 Minister decides that it is not proper to act in such a  
10 way, yet it is not written into the Act.

11 THE CHAIRMAN: I hope that you will be able  
12 eventually to come forward and suggest a cure for  
13 this very troublesome area. Whether that cure be  
14 to kick out these offending words and change them for  
15 better words -- maybe there should be no Part 6  
16 whatsoever.

17 MR. EDWARDS: Mr. Chairman, I think one  
18 point in connection with this whole subject is that the  
19 many areas of tax avoidance spring from the structure  
20 of the Tax Act itself. I think a lot of problems of  
21 this type would not exist if the Act were designed more  
22 closely, or at least as far as possible, to provide  
23 that similar situations will be subject to similar tax  
24 results. In that case, since we are dealing with tax-  
25 payers and human nature, we would find that there would  
26 be much less incentive for taxpayers to try to arrange  
27 their affairs to avoid a tax result if the change would  
28 bring them into a similar result under a different  
29 provision. In other words, where there are two trans-  
30 actions very similar in substance, or which result in a.







D-9 1 similar business objective, and they are taxed at quite  
2 different rates, that is the type of situation which  
3 breeds tax avoidance.

4 THE CHAIRMAN: I think what we are really  
5 talking about is improper avoidance, which becomes  
6 evasion, does it not, and I presume that the word  
7 "improper" must be in there to indicate  
8 misrepresentation, or something unpleasant which has  
9 occurred to achieve a certain result?

10 MR. EDWARDS: Section 138, I believe, says  
11 that something may be improper even though it is not  
12 illegal. Now, if it comes under that provision, I  
13 don't know whether it is necessarily tax evasion. That  
14 is the Section under which the Treasury Board may  
15 give directions, but it does not necessarily have to be  
16 evasion, I don't think, to be dealt with under  
17 Section 138.

18 MR. STEWART: That is Subsection 6.

19 MR. EDWARDS: The evasion provisions are  
20 Sections 131 and 132, and some of the subsections of  
21 Section 132 don't make it clear that the avoidance,  
22 or failure to report, must be wilful before it is an  
23 offence. Also, there is the question of the individual  
24 who fails to report a transaction, and he has a bona  
25 fide argument that it is not taxable. If it is arguable  
26 that a transaction is not taxable, is he bound to report  
27 it? That is the type of difficult question.

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29 ---Recess.  
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2 THE CHAIRMAN: Shall we come to order,  
3 gentlemen? Mr. Stewart?

4 MR. STEWART: Thank you, Mr. Chairman.

5 Gentlemen, I think that in order that we  
6 can be sure that we get your views or comments this  
7 morning on some points of major importance, I would  
8 like to skip about in the balance of your submission  
9 to some extent, and if it is agreeable I would like to  
10 move in the first instance to item (e) under the  
11 heading, "Aspects of Existing Law which Require  
12 Attention". That item relates to the treatment of  
13 corporate distributions and reorganizations, and I  
14 observe under the next heading that item (a) relates  
15 to tax free reorganizations. I wondered if you could  
16 indicate briefly the general nature of the problems  
17 that you think the Commission should have in mind when  
18 it considers these particular subjects?

19 MR. HULBIG: I think basically in linking  
20 up the tax free reorganizations with the previous  
21 section we are aiming generally at what Mr. Edwards  
22 has already spoken of, in terms of achieving similar  
23 tax results where there are similar business results  
24 and that certain amalgamations, and so on, can be  
25 effected under the tax law without unfortunate tax  
26 consequences, whereas others cannot.

27 That is speaking very generally about it,  
28 and having said that I would like to hand this over  
29 again to Mr. Edwards, who has more experience than I.

30 MR. EDWARDS: Mr. Chairman, I think in this







1 field of corporate distributions, reorganizations,  
2 it is one shining or otherwise example of a case where  
3 the Act is proliferated and becoming extremely complex.  
4 There are quite a number of lengthy sections dealing  
5 with corporate distributions. You can make corporate  
6 distributions at numerous rates of tax, depending on  
7 how it is done. In a normal case a dividend is taxable  
8 at the normal rate of 20 per cent Canadian credit, if  
9 it is a Canadian corporation, and certain distributions  
10 can be made under Section 105 of 15 per cent. Ordinary  
11 inter-company payments of dividends are tax free, but  
12 if it happens to come under Section 28(2) and is  
13 a distribution out of designated surplus, it may be  
14 taxable at 50 per cent; under Section 105B there are  
15 provisions for making distributions at 15 per cent  
16 or 20 per cent; under 105C it is 20 per cent. There  
17 doesn't seem to be any consistency of approach in these  
18 different provisions.

19 Now, I think in many cases where there is  
20 more than one corporation in a group of companies under  
21 single ownership and it is desired for business reasons  
22 to change, transfer assets from one company to another,  
23 or to re-arrange the way in which the business is  
24 carried on, it is almost impossible to accomplish that  
25 result without running into one tax problem or another,  
26 either a problem of a tax benefit under Section 8 or  
27 a problem of recaptured depreciation or distribution out  
28 of a designated surplus. If you can find an answer  
29 to one of these problems, you frequently run into  
30 another. I think that led to our suggestion that the .





1 Commission may consider tax free reorganizations.

2 Now, the United States provides for tax  
3 free reorganizations of particular types in long and  
4 complicated provisions. It may be that by taking a  
5 different approach to some of the provisions which are  
6 in force for taxing corporate distributions the  
7 structure of the Act would permit a freer hand to  
8 business in reorganizing, re-arranging its affairs  
9 without the necessity of including provisions such as  
10 they have in the United States.

11 I think that is about all I can say at  
12 the moment.

13 MR. LEMAY: There may be usefulness in  
14 distinguishing also between the winding up of a  
15 company and distribution of surplus for the benefit  
16 of shareholders at the time of winding up and what is  
17 call reorganization in paragraph 1 of Section 81.  
18 There is no statutory definition as to what re-  
19 organization is actually. Is it a matter of structure?  
20 Is it a matter of type of business, change over from  
21 one type of operation to another which would create  
22 an advantage or would cause what the Act says is an  
23 appropriation of funds or property of the company?  
24 We don't know actually, and so the definition of  
25 the word "reorganization" could be also useful.  
26 We know what winding up means; there is an Act. But  
27 reorganization seems too general.

28 MR. STEWART: Now, I suppose that it is the  
29 case that the root of this difficulty is or was the  
30 accumulation of earnings in corporations. Would you or.







1 would you not agree that that was the basic difficulty  
2 or problem?

3 MR. EDWARDS: Yes, I think that is certainly  
4 the reason that the problem arose, that earnings are  
5 accumulated, eventually the shareholders may wish to  
6 obtain the accumulated earnings. In fact, in some  
7 cases they are compelled to take steps to distribute  
8 the earnings, either to provide for payment of  
9 succession duties or some other reason, and because of  
10 the provisions for imposing tax on the distributions,  
11 you are led into all these complications that we have  
12 discussed.

13 MR. LEMAY: There may be one aspect also  
14 which appears in subsection (11) of the section you  
15 pointed to. The effect of the present provisions in  
16 some circumstances which may occur where control of  
17 a company creates this surplus as such is that the  
18 minority shareholders are penalized as far as the  
19 earned surplus is concerned up to that date. You can  
20 manage to penalize under the Act those that control the  
21 company and not penalize those that were not  
22 instrumental in bringing about the designated surplus.

23 MR. EDWARDS: We probably would prefer to  
24 avoid penalizing any of them. For example, Section 8,  
25 subsection(1), provides that certain types of payments  
26 to shareholders are included in income. Now, such  
27 benefits or advantages or appropriations are not  
28 specifically deemed to be dividends, but there may not  
29 be any good reason for distinguishing between that type  
30 of distribution and saying it is entitled to much more.





1 severe treatment than a dividend would be. Added to  
2 that is the fact that while the amount is taxable at  
3 the full rate to the shareholder, whether the share-  
4 holder is a company or an individual, would not be  
5 deductible by the company which concurs the advantage.

6 That is one case which we might categorize  
7 as a penal provision.

8 MR. STEWART: What this Commission will  
9 obviously have to attempt to do is to get this whole  
10 problem in perspective and consider alternative solutions  
11 to it. The problem is obviously related to a number  
12 of other problems, but I am sure, Mr. Chairman, you  
13 would consider it extremely helpful if the Bar  
14 Association in its submission, having also got the  
15 problem in perspective, could make concrete suggestions  
16 as to what an over-all solution should be or what  
17 the over-all solution should be.

18 MR. HULBIG: I don't suppose there is any  
19 hope of getting the deliberations of the informal  
20 committee which sat on this subject a few years ago?  
21 It would be very helpful if we could.

22 THE CHAIRMAN: I am not at all sure that  
23 they are available to you; in fact, I am sure they are  
24 not. But as an alternative to that, with regard  
25 to the economic thought which goes into this problem,  
26 with which you may not be very well equipped, we would  
27 certainly be very glad to have you confer with members  
28 of our staff on the economics of the problem.  
29 I think there are a lot of alternatives which are not  
30 primarily concerned with the law, and having regard to .







1 those, one must look at the law and see whether they  
2 are workable and can be developed, and therefore it may  
3 be that some co-operation would be useful to you.

4 MR. HULBIG: I have no doubt it would, sir,  
5 and we are delighted for the opportunity.

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1 MR. STEWART: I don't think that you have  
2 specifically mentioned the provisions of Section 85(I)  
3 in this connection, and I think that in the recent  
4 recommendations of the Joint Committee of your  
5 Association and the Canadian Institute of Chartered  
6 Accountants to the Minister of Finance, which were  
7 made in December, 1962, you did make certain specific  
8 suggestions with regard to the extension of the effect  
9 of Section 85 (I)?

10 MR. HULBIG: Yes sir.

11 MR. STEWART: Well now, could we go to the  
12 immediately preceding clause under this heading, where  
13 you raise the question of the effects of the two rates  
14 of tax which are now applicable to corporate income,  
15 and the whole problem of associated corporations?  
16 Could you comment for the Commission's benefit generally  
17 on the problems which have arisen under Section 39 as  
18 a result of the two rates of tax and the associated  
19 corporations provisions?

20 MR. EDWARDS: Well, in this particular I  
21 <sup>there</sup> problem I think that the fact that ~~that~~ are two rates of  
22 tax applicable to corporations, one of which is much  
23 higher than the other, in other words, the first \$35,000  
24 of taxable income is taxed at the rate of 21 per cent,  
25 and the excess over \$35,000 at the rate of 50 per cent,  
26 disregarding provincial taxes and provincial tax credits  
27 in those rates, makes it obviously very desirable for  
28 taxpayers to attempt to bring themselves within the  
29 lower bracket.

30 There have been many cases in which persons .







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1 or groups of persons, have organized a number of  
2 companies, and in some cases a large number of companies,  
3 to attempt to get for each company the lower rate of  
4 tax. These provisions were amended very substantially  
5 a couple of years ago, and some of the gaping loopholes  
6 which existed prior to that amendment were eliminated.

7 I believe there are still circumstances  
8 in which groups of companies have been organized to  
9 operate what in essence is a single business, so that  
10 each company is entitled to get the benefit of the lower  
11 rate.

12 Of course, in other cases the provisions  
13 operate the other way, and because two people happen  
14 to be related the companies which they control may be  
15 deemed to be associated, even though the theory should  
16 not be, because they are separate enterprises. I  
17 don't know what the solution to that would be, because  
18 I presume it was government policy, at least when these  
19 provisions were introduced, to encourage the smaller  
20 businesses by giving them a more attractive rate.

21 One possible idea I have heard mentioned  
22 would be to provide one uniform rate, but give companies  
23 the right to elect to be taxed as partnerships, so that  
24 those in the lower income bracket, whose shareholders  
25 are in the lower income bracket, would be entitled to  
26 get the advantage of their lower individual rates.

27 MR. STEWART: Is that the basis, Mr. Edwards,  
28 for item (c) under the next heading, which has to do  
29 in part with election by corporations to be taxed  
30 as partnerships?





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1 MR. EDWARDS: I think that is part of it,  
2 Mr. Stewart. That was one reason for raising that  
3 suggestion, and another reason was the anomalous  
4 position of personal corporations, that that might  
5 assist in connection with that problem. I don't know  
6 whether you want me to deal with that right now?

7 MR. STEWART: Well, I was going to come to  
8 personal corporations next, because that is a subject  
9 on which we would like to hear from your Committee.

10 MR. HULBIG: Excuse me, could I interject  
11 one more point there, Mr. Stewart? I think also to  
12 have the election work both ways. The corporation as  
13 a partnership and the partnership as a corporation,  
14 and I think also one other point was the professional  
15 partnership, which by statute are not permitted to  
16 incorporate.

17 MR. STEWART: You are suggesting there that  
18 it should be possible for partnerships to elect to be  
19 taxed as corporations and I take it that you have thought  
20 out, or that in your ultimate submission you will  
21 indicate, how on that basis one deals with after  
22 tax income of the partnership?

23 MR. HULBIG: We have suggested that  
24 consideration should be given to it. Whether we will  
25 be able to reach a conclusion such as you suggest, I  
26 can't quite say yet.

27 MR. STEWART: And you will be dealing with  
28 this in your final submission?

29 MR. HULBIG: We shall try.

30 MR. EDWARDS: I might mention, Mr. Stewart,.







1 at a panel discussion of the Canadian Bar Association  
2 last fall at Halifax this problem was discussed, and  
3 the members of the panel were far from unanimity on  
4 the desirability of the right of a partnership to be  
5 taxed as a corporation, as it does raise the problem  
6 of what you do with the notional surplus that arises.

7 COMMISSIONER GRANT: The provision in the  
8 Act that when companies are associated only one company  
9 can take advantage of the lower rate, would you consider  
10 that that works an injustice on the companies which  
11 became associated companies by virtue of the amendment  
12 to the Act, but which were separate companies, although  
13 one controlled the other, prior to the associated  
14 provision being put into the Act?

15 MR. LEMAY: That is before they changed  
16 the rate from 70 per cent of the ownership of the shares  
17 to the notion of control of the company?

18 COMMISSIONER GRANT: Yes. Well, to be  
19 perhaps a little more concise about it, I am thinking of  
20 a case where a company owned 100 per cent, let us say, of  
21 the shares of another company prior to the associated  
22 provision coming into the Act. That company was owned  
23 for a purpose. It was not acquired with a view of  
24 splitting the tax, or so that both companies could take  
25 advantage of the lower rate. It was not acquired for  
26 that purpose. I can certainly see how the associated  
27 provision states that only <sup>one</sup> company can take advantage  
28 of it, when you consider that a large company might  
29 want to break itself down into smaller companies so  
30 that they could all take advantage of that provision,





1 but I am thinking of the case of where a company  
2 acquired another company in good faith prior to the  
3 associated provision coming into the Act, and yet  
4 it is caught in that provision?

5 MR. LEMAY: The Act, as it stood before  
6 the amendment of 1960, enabled a number of companies  
7 to, enabled a number of their managers for instance,  
8 to benefit from their ingenuity, and they were  
9 developing the affairs of the corporations to the  
10 extent that the parent company would control 69 per cent  
11 of the shares, and the management team of a subsidiary  
12 could control 31 per cent. That management team has  
13 now disappeared, and it is costing too much to the  
14 parent company to dispossess itself of 50 per cent of  
15 the ownership of the shares.

16 MR. EDWARDS: Mr. Grant, there might be  
17 cases of the type you mentioned, where there would be  
18 an injustice, where each company is operating an  
19 entirely separate enterprise. I think in the United  
20 States, for example, where they also have two rates  
21 of tax on corporations, they don't have a detailed type  
22 of provision such as we have in Canada. I think it is  
23 a more general test as to whether the enterprises,  
24 or whether the businesses operated by the two companies,  
25 are really parts of an integrated enterprise. If  
26 they are two separate enterprises, they are treated as  
27 non-associated. Whether that is desirable I don't  
28 know, but it is an alternative approach.

29 MR. STEWART: As I understand Mr. Grant's  
30 question, the control of all of the shares of the one







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1 company was acquired by the other before these associated  
2 company provisions came into the Act at all?

3 COMMISSIONER GRANT: Right.

4 MR. STEWART: Aren't we then in the  
5 position that taxpayers generally are subject to laws  
6 of general application, and if the rules are changed,  
7 people are subject to the new rules, regardless of the  
8 circumstances?

9 COMMISSIONER GRANT: Well, sometimes you  
10 say that this Section shall not apply to companies  
11 incorporated prior to the amendment.

12 THE CHAIRMAN: It seems to me that the  
13 difference in the rates has caused a tremendous amount  
14 of administrative and legal difficulty, and I hope  
15 you might be able to suggest a solution. I have been  
16 wondering if there is not some other way of providing  
17 incentives to the small businesses than rate differentials?  
18 I think we must search for a better answer than what  
19 we have got at the present time.

20 MR. STEWART: Now gentlemen, we have in  
21 earlier hearings of this Commission had some discussion  
22 of personal corporations, and I wonder if you could deal  
23 briefly with, first of all, the concept of the personal  
24 corporation, the purposes for which such corporations  
25 are formed, and indicate whether you think that in  
26 cases of that kind it is reasonable for the tax collector  
27 in effect to pierce the corporate veil, and let us have  
28 any comments, if there are any preliminary comments you  
29 may have as to the adequacy of the present legislation?

30 MR. EDWARDS: Well Mr. Stewart, as I understand





F-7 1 it the personal corporation legislation was originally  
2 put in the Act to permit persons with investment  
3 portfolios to hold them in a corporation. In other words,  
4 which had certain advantages of permanency, and otherwise,  
5 and the idea was to treat him for tax purposes as if  
6 he owned the investments of the corporation personally,  
7 and tax him on the income. That, I think, was a  
8 laudable object.

9 The definition of personal corporation  
10 provided that a person could, that if the company  
11 carries on any active business it won't qualify as a  
12 personal corporation. As I understand it, the  
13 Section was first put into the Act with the idea that  
14 people would want personal corporations. In other words,  
15 it was a beneficial provision. In more recent years  
16 it seems to be desirable to avoid being a personal  
17 corporation, mainly because of the inter-company  
18 transfer of dividends. If the company is not a  
19 personal corporation, it can receive dividends from  
20 another corporation tax free, whereas if it was a  
21 personal corporation the dividends would be taxable to  
22 the shareholders.

23 Now, a company with \$100,000 of investment  
24 income which is a personal corporation would be taxed  
25 on a much different basis than the same company if it  
26 carried on the operation of a very small active business  
27 which might have an income of \$1,000 a year. It is  
28 an extreme example, but it is very easy under the  
29 present legislation to avoid being a personal  
30 corporation.







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1 I think in the discussions of the Bar  
2 Association, and in the Joint Committee of the  
3 Bar Association and the Institute of Chartered  
4 Accountants in the past it has been generally con-  
5 sidered that the present provisions don't make a great  
6 deal of sense at the present time because of the  
7 artificial way in which a personal corporation is  
8 distinguished from a non-personal corporation, and the  
9 very different treatment that the one gets from the  
10 other.

11 There are also a number of technical  
12 provisions in the Section which don't make much sense,  
13 such as the provisions for allocation of the income  
14 among the shareholders. I won't go into the technical  
15 details of that at the moment.

16 It seemed to us that there might be some  
17 virtue in considering the possibility of permitting  
18 a corporation to be taxed as a personal corporation  
19 by election. I think the Tax Foundation has gone into  
20 the structure of this Section very fully.

21 THE CHAIRMAN: It would seem to me that one  
22 has always under our law got the right to form a  
23 corporation, and that <sup>gives</sup> persons have special privileges  
24 under the Act. You are entitled to have the right to  
25 tax of a corporation, and those benefits not only would  
26 be with regard to the lack of taxing dividends, but it  
27 would also obtain to accumulations. Therefore, for  
28 the law to try to achieve a position of neutrality,  
29 it is necessary to introduce these special provisions,  
30 I think. Therefore I can't understand when you say .





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1 "by an election" as to what rights you would leave with  
2 the taxpayer?

3 MR. EDWARDS: Mr. Chairman, I think the  
4 suggestion which we haven't fully thought out, might  
5 be that this would come within the principle of a  
6 partnership electing to be taxed as a corporation, or  
7 vice versa, but the personal corporation, under the  
8 present law, is a company which exists only in a  
9 very specific set of circumstances. It is not very  
10 difficult in substance from many cases that don't  
11 come within that specific definition.

12 THE CHAIRMAN: One other answer to it,  
13 of course, might be to enact a law such as they have  
14 in the United States, and I think in the United Kingdom,  
15 deeming surpluses to be distributed, which we  
16 at one time had in Canada, in company

17 MR. EDWARDS: Yes, that was a discretionary  
18 provision.

19 THE CHAIRMAN: Quite.

20 MR. STEWART: But your point, I take it  
21 Mr. Chairman, was that for the protection of the revenue  
22 it might be necessary to look through the corporate  
23 form in certain circumstances?

24 THE CHAIRMAN: I think that is why it is  
25 in the law now, and I can't see how a reasonable  
26 position with regard to the law can be maintained without  
27 the continuation of something of that kind, but it is  
28 much too early to make up my mind on this.

29 MR. HULBIQ: Perhaps the problem there is  
30 the same as the earlier problem we were discussing, about







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1 the speed of assessment. Some years later he might  
2 find that he falls within the definition of personal  
3 corporation, and the results are unfortunate.

4 THE CHAIRMAN: Yes.

5 MR. STEWART: Can we move for a moment  
6 down to your section on Estate Tax?

7 The first question you raise there is whether  
8 our death taxes at the present time cause property  
9 to be tied up for long periods in trusts.

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1 I wonder if you would mind indicating to  
2 the Commission what lies behind that particular ques-  
3 tion?

4 MR. HULBIG: Perhaps we are going beyond the  
5 terms of reference which we set ourselves in this  
6 particular question, because it has to bear on  
7 economics other than law. It has been suggested to us  
8 or the question has been raised whether -- well, first  
9 of all, it is perhaps well known that it is possible to  
10 avoid two sets of double taxes in favour of one by  
11 creating a trust. In other words, if you leave an  
12 estate outright, for example a husband leaving it to a  
13 wife outright, then there are death taxes imposed on  
14 the husband's death and then the wife's death; whereas  
15 if the income was left in trust and the capital  
16 distributed to the children at some time, then there is  
17 no additional tax on the death of the wife. I don't  
18 think we had thought much beyond that point.

19 Inasmuch as our death structure exists, to  
20 what extent has it led to the creation of trusts of this  
21 nature? And if it has led to many trusts in which  
22 property would be held up for a long time, is it a  
23 desirable thing? In other words, speaking generally,  
24 a trustee is obliged by law to be conservative in  
25 investing. Has this removed capital from the general  
26 stream of the economy? To answer it is not the easiest  
27 thing in the world, and we are not sure that we can  
28 give you a full answer to that question at this time.

29 MR. STEWART: Of course, the question arises  
30 how prevalent this is, but the question which follows







1 immediately after is: How are we going to determine  
2 how prevalent it is? It may be that if the Bar  
3 Association considers it is a serious problem it could  
4 obtain information as to the extent to which property  
5 is tied up in this particular way. I suppose another  
6 question would be then, to the extent that it is so  
7 tied up, are the investment powers of the trustees  
8 nowadays really limited, or in the average case is the  
9 trustee given all the investment powers that the  
10 testator would wish himself?

11 MR. EDWARDS: Mr. Stewart, on this particular  
12 point the trust may be divided into two types. One is  
13 a trust established by an individual in his lifetime  
14 in an estate planning scheme under which the growth  
15 factor in his enterprise is transferred to a trust so  
16 that it will not be included in his estate at the time  
17 of his death. That is normally dictated mainly by  
18 estate tax considerations.

19 The second type of trust is one which arises  
20 under a will on the death of an individual. Instead of  
21 leaving the property outright to his wife or his  
22 children he may give them the income and possibly the  
23 right to have advances made to them out of the capital,  
24 but the ultimate distribution is made to his grand-  
25 children or great grandchildren in order to avoid the  
26 property being subject to estate tax more than once.  
27 If he left it outright to his wife, for example, it  
28 would be subject to estate tax on his death, and then  
29 when she died it would be subject to estate tax again.  
30 There are provisions in the Estate Tax Act for reducing





1 the duty if she dies within a very short period after  
2 her husband, but that is a very limited relief.

3 In the United States they permit half of the  
4 property to be distributed to the man's wife free of  
5 estate tax. Whether that is desirable or not, I don't  
6 know, but I think our feeling is that the existence of  
7 trusts of the type mentioned is fairly prevalent among  
8 people of substantial means. We have merely raised  
9 for the consideration of the Commission the question of  
10 whether that is a good thing. Certainly at the present  
11 time we have no opinion on it.

12 COMMISSIONER GRANT: Of course, you are not  
13 suggesting, Mr. Edwards, that if a tax policy could be  
14 evolved whereby the double taxation feature would not  
15 apply in the event of an outright bequest to, say, a  
16 widow, that in itself would mean the redrafting of  
17 wills already in existence, because many testators,  
18 would you not agree, would prefer the life interest  
19 provision than the outright provision?

20 MR. EDWARDS: Yes, Mr. Grant, it certainly  
21 wouldn't change any trusts that have been established  
22 up to the present time. Many people might prefer  
23 that type of arrangement in their wills. But I think  
24 in the experience I have had that estate tax in many  
25 cases does have a bearing on it; it is one reason for  
26 establishing such trusts.

27 COMMISSIONER GRANT: Yes. Also, the overall  
28 provisions in the common law, the rule against perpetuity,  
29 prevents a trust being tied up in perpetuity except in the  
30 case of a charitable trust.







1 MR. EDWARDS: Yes. That can sometimes be  
2 quite a long period.

3 THE CHAIRMAN: Mr. Stewart, may I inquire  
4 from Mr. Edwards as to whether he means in the state-  
5 ment that the division of capital from income in the  
6 case of trusts is, in fact, an artificial distinction,  
7 and that when one receives the benefit or benefits of  
8 property, the benefits, I presume, would be the income  
9 from the property, he is, in fact, receiving the  
10 property and as such, if there is an estate tax,  
11 should bear the estate tax, with, of course, suitable  
12 exemptions made, possibly very large in the case of  
13 widows? It has led us to estate plans where we  
14 manage to drop things down a couple of generations.  
15 There are some quite ingenious plans, as you well  
16 know, and I wondered whether there is, in fact, a real  
17 division between the capital and the income.

18 MR. EDWARDS: I believe, Mr. Chairman, in  
19 the United Kingdom -- I am not very familiar with  
20 their legislation, which is very complex -- I believe  
21 there are provisions there under which the estate is  
22 taxable on the death of a life tenant or subject to  
23 some tax. But whether this is desirable or not, I  
24 don't know.

25 COMMISSIONER GRANT: Well, indeed, under our  
26 own system, as I understand it, a life interest with  
27 unlimited powers to encroach on principal, if the  
28 beneficiary has the exclusive say as to whether he or  
29 she is going to take it, comes as to estate taxes as if  
30 it is an outright bequest.





1 MR. EDWARDS: That is correct.

2 MR. STEWART: Your next point under estates  
3 tax is whether death duties are responsible for the  
4 break-up or sale of many Canadian owned businesses.  
5 Then you go on and ask, if that is so, whether it is  
6 desirable.

7 Have you, as a result of your collective  
8 experience, any views on the question of fact, that is,  
9 at the present time are there many situations where  
10 a family owned business, for example, is required to  
11 be sold because of the impact of death duties?

12 MR. HULBIG: Speaking for myself, I have  
13 only seen smoke and not much fire.

14 Would any of you gentlemen want to deal with  
15 the situation?

16 MR. LEMAY: Well, I have seen a number of  
17 cases during the past few years where people still  
18 living are concerned with that problem, because they  
19 have worked over a period of thirty years and have  
20 accumulated certain wealth which is all invested in  
21 one type of business. All profits have been, in fact,  
22 capitalized; there are not sufficient life insurance  
23 policies to cover the death duties and the development  
24 of the business is such that there are no liquid  
25 assets to cover the death duties that would have to  
26 be paid. If the company has not reached the level  
27 where it can go to the public to re-finance itself  
28 and distribute during the lifetime of its owners the  
29 equity which has been created, then there is hardly  
30 another way to dispose of those assets but to sell







1 the business. There are not so many alternatives.

2 MR. STEWART: Mr. Lemay, I cannot help  
3 wondering whether in 1963 this can happen terribly  
4 often. After all, for the last twenty-five years there  
5 have been measures which have been designed to assist  
6 in the distribution of accumulated income, dividends,  
7 Section 105. Would it not be likely that in the  
8 average case, assuming that the proprietor of a  
9 business has any professional advice at all, that he  
10 is going to be warned well ahead of the problems which  
11 will arise on death and that in the great majority of  
12 cases he would have been able to take precautionary  
13 measures?

14 I know this problem has existed in the past  
15 and I know it does exist today, but I wonder if it  
16 exists in a great many cases.

17 MR. LEMAY: Particularly Section 105,  
18 distributing the surplus by capitalization. You would  
19 need to have assets which, in fact, you could dispose  
20 of. But if the corporate surplus has been transformed  
21 into assets that the company used for its business,  
22 then there is no liquidity in the company for payment  
23 of death duties. That is the problem that many middle-  
24 sized corporations, let's say worth half a million  
25 dollars or three-quarters of a million dollars, have  
26 to face because all the surplus and profits have been  
27 invested to promote the progress of the company and  
28 there is no liquidity whatsoever.

29 THE CHAIRMAN: May there not be an assumption  
30 if  
that/the shares or the assets of the company have not





1 got sufficient borrowing power to raise cash, that  
2 the asset may not be a very good one to leave in one's  
3 estate?

4 COMMISSIONER GRANT: Still it may be providing  
5 a very good livelihood for the family.

6 MR. STEWART: Now, let's assume, then, that  
7 this still is a problem on the Canadian scene. Have  
8 you any suggestions as to how the problem may be  
9 solved or at least alleviated?

10 MR. HULBIG: Not at the moment.

11 MR. STEWART: May we hope that this is  
12 another matter which will receive consideration in your  
13 final submission?

14 MR. HULBIG: We may come to the same conclu-  
15 sion that we are leading to here, that it is not a  
16 problem.

17 MR. EDWARDS: It may be, Mr. Chairman, that  
18 it is not a bad thing to have a business sold to  
19 someone who is more directly interested in operating  
20 it than the executors or beneficiaries of a deceased  
21 person, if they are not interested in that particular  
22 type of business.

23 THE CHAIRMAN: I was interested in whether  
24 you were going to raise that point. I can conceive  
25 discomfort and hardship in businesses being passed on  
26 to people who are not capable of running them. I  
27 probably have not seen more discomfort than good  
28 results, but I am sure we can all think of businesses  
29 which have got into trouble because they have been  
30 passed down through a family to a generation which is







1 not sufficiently endowed to look after the business.

2 MR. EDWARDS: There are two points which  
3 come under the other points which we have raised which  
4 may be relevant in this connection. One is the  
5 artificial rules of valuation, and one is the fact  
6 that income tax liability is not to be taken into  
7 account in estate tax purposes. That seems to us to  
8 be an artificial rule, and the income tax liability is  
9 a factor which the Commission may say should be taken  
10 into account in valuing for estate tax purposes.  
11 Another possible approach may be to allow more time  
12 for the payment of estate taxes, spread out the time  
13 of payment, which might alleviate the problem.

14 THE CHAIRMAN: Would you also be concerned  
15 about the date of valuation?

16 MR. EDWARDS: Yes, I think that is another  
17 point. I think we have mentioned here somewhere that  
18 if the value has decreased after the date of death,  
19 possibly an alternative date should be elected by  
20 the estate.

21 MR. STEWART: The only item under (c)  
22 which has not yet been specifically mentioned is  
23 the problem with regard to capitalization of  
24 annuities and retirement allowances.

25 MR. HULBIG: The problem basically here  
26 is that the legislation provides valuation of an  
27 annuity on the basis of the life expectancy of the  
28 annuitant, and that will produce a capital sum which  
29 is added to the estate and duty is to be paid, estate  
30 tax is required to be paid within a very short time





1 after death. It may well be that the annuitant only  
2 lives for a very short time for a number of reasons, or  
3 may be in very poor health at the time that the annuity  
4 commences.

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1 So that we find cases of hardship, where people are  
2 obliged to pay estate tax on amounts which they may  
3 never receive, and the suggestion has been made that  
4 the remedy for this is to allow extended payment,  
5 allow some sort of a pay-as-you-go basis, extend the  
6 annuity principal, if you will, to the payment of the  
7 tax, a portion of each payment be taxed as it is  
8 received.

9 The argument is made on the other side that  
10 this has administrative difficulties, and would keep  
11 estates open for long periods. Well, the response to  
12 that, I suppose, is, well, there is hardship here and  
13 surely some means can be found in our modern tax system  
14 to alleviate this difficulty?

15 MR. LEMAY: It would just be added to the  
16 part of income tax that he pays with proper adjustment  
17 if life expectancy isn't met, and death occurs  
18 prematurely.

19 THE CHAIRMAN: Would you have an adjustment  
20 in the other direction, if he lives unduly long?

21 MR. LEMAY: Well, the life expectancy  
22 actually seems to govern the rate of tax for death  
23 duties.

24 MR. HULBIG: There are a number of possibi-  
25 lities. One way would be to have the tax continue for  
26 life. If the person lives longer, well of course this  
27 is a self-adjusting thing, and they pay more perhaps.

28 COMMISSIONER BEAUVAIS: If you have somebody  
29 dying and leaving no other assets than a pension to  
30 his wife, then the wife has to pay a certain amount





1 according to her age, and suppose that the pension is  
2 \$5,000, then she will receive maybe \$2,500, but actually  
3 she will have to pay income tax on \$5,000.

4 MR. HULBIG: I can't tell you exactly how it  
5 works out, but there is that credit for estate tax  
6 which was recently introduced into the Income Tax Act.

7 COMMISSIONER BEAUVAIS: Yes. If somebody died  
8 after a certain number of years, I think it is four  
9 years.

10 MR. HULBIG: No, sir. Isn't there a certain  
11 credit for estate tax which is being paid for the  
12 amount subject to tax? I thought there was a current  
13 provision?

14 COMMISSIONER BEAUVAIS: But still the income  
15 tax is paid on an amount not received.

16 MR. HULBIG: It is computed on the total  
17 amount.

18 MR. EDWARDS: It is Section 11 (1) (v) of  
19 the Income Tax Act.

20 MR. HULBIG: But my impression is that this  
21 does not provide complete relief, and this only relates  
22 to superannuation, pension benefits, death benefits and  
23 benefits under savings plans, and benefits under  
24 deferred profit-sharing plans. There may be other  
25 cases where there would be a taxable annuity which would  
26 not have that benefit.

27 MR. STEWART: Well, now, could we go back to  
28 another part of your memorandum. We have already had a  
29 brief discussion of the question of capital gains, but  
30 I notice that in paragraph (a) under the heading







1 "Aspects of Existing Law which Require Attention", you  
2 raise the general question of the treatment of capital  
3 gains, and in particular whether there should be an  
4 objective definition of the expression "adventure in  
5 the nature of trade".

6 Could you tell us the sort of thing that you  
7 have in mind here, the sort of thing that you think the  
8 Commission should be considering?

9 Mr. HULBIG: Well, it seems obvious from the  
10 wording of this paragraph that we weren't all -- we  
11 didn't all agree with Mr. Lemay's earlier statement  
12 that the courts have done an adequate job, but I think  
13 again I am going to call on Mr. Edwards to say something  
14 on this subject.

15 MR. EDWARDS: Well, on this matter, Mr.  
16 Chairman, I think generally speaking in determining  
17 whether income arose in the course of business there is  
18 no great difficulty. I agree in that part of the  
19 definition of business with Mr. Lemay's comment that  
20 it should not be too difficult to determine whether a  
21 profit arose in the course of a business, and for that  
22 reason should be income. The definition of business  
23 goes on to say that it includes an adventure or concern  
24 in the nature of trade, and that distinction of the  
25 definition has resulted in a lot of litigation.

26 Now, whether it is possible to define an  
27 adventure or concern in the nature of trade in such a  
28 way as to achieve all the objectives that would be  
29 desirable is problematical. I think this point has  
30 been discussed for years in the Tax Foundation, but the





1 British have in effect done something like that by  
2 passing their Speculative Gains Tax, and saying that a  
3 gain made in the case of real estate within a three-  
4 year period would be taxable, but beyond the three-  
5 year period it would be tax-free. Whether that sort of  
6 delineation of an objective test is desirable I don't  
7 know. I think there is no doubt it would make the law  
8 more certain than it is at the present time. In the  
9 case of capital gains there are, in the case of  
10 securities I think generally speaking the assessment  
11 procedure of the Department is to not tax them, except  
12 in certain specific types of cases, such as promotions,  
13 or brokers. Many cases of dealings in securities by  
14 people, where if the law were to be applied strictly  
15 would be held to be taxable -- I don't think anybody  
16 suggests that securities dealings should be made  
17 taxable, but the possibility always exists that the  
18 Department would assess a transaction which everyone  
19 had considered to be tax-free, and occasionally that  
20 happens, and in that event the taxpayer has little  
21 recourse.

22 It may be that the Commission should consider  
23 suggesting either the deletion of the reference  
24 to "adventure or concern in the nature of trade", or  
25 substituting some more specific test.

26 MR. STEWART: Will you be developing sub-  
27 missions on the general question of capital gains  
28 tax, and perhaps as an alternative the possibility of  
29 a net worth tax, such as I understand exists in some  
30 European countries?







1 MR. HULBIG: I don't think that that was our  
2 intention, sir. I am not sure that we are equipped to  
3 make an assessment.

4 MR. EDWARDS: I think that would first involve  
5 the judgment that a capital gains tax would be desirable.

6 MR. STEWART: No, I am not suggesting that  
7 your submission should be one way or the other. I am  
8 just wondering whether you were planning to discuss  
9 that general question, and then either simply put the  
10 pros and cons to the Commission, or come down on what-  
11 ever side of the fence you chose to come down on?

12 MR. HULBIG: Well, sir, may we take that  
13 under advisement, please?

14 MR. STEWART: Please.

15 THE CHAIRMAN: Do you believe that the  
16 Department extends itself more vigorously to the taxa-  
17 tion of transactions in properties than it does in  
18 securities?

19 MR. EDWARDS: I think that is very true,  
20 Mr. Chairman, that the Department very vigorously  
21 pursues the taxation of dealings in real estate, which  
22 are much easier to trace of course.

23 THE CHAIRMAN: Well, then, that suggests  
24 that they should either ease up on real estate, or  
25 proceed further with regard to securities, does it  
26 not?

27 MR. EDWARDS: Yes. I think in the case of  
28 real estate certainly the assessments result in many  
29 cases in hardship to taxpayers who considered they  
30 were in a capital gains position, not only because of





1 the fact that they are taxable, which may or may not  
2 be a good thing, but if they are taxable they are often  
3 taxed at a very high rate in one year on a profit that  
4 has accumulated over several years, and arises out of  
5 the graduated rate structure. So that in the case of  
6 adventures or concerns in the nature of trade the  
7 difficulty is compounded by that aspect of it.

8 MR. LEMAY: But by their nature the decisions  
9 of the Supreme Court show that bonds or investments can  
10 be, by their very nature, easily distinguished and  
11 identified as such. The most recent case on the  
12 subject is the 1963 case of Irrigation Industries,  
13 where those principles are fully outlined. On the other  
14 hand you have cases like Regal Heights, and others of  
15 the sort, where the courts, in examining the intention  
16 of the taxpayer as of the time when the purchase was  
17 made, through the period <sup>of</sup> ownership, and the way of  
18 disposing of the assets, determines in the light of  
19 those circumstances whether the taxpayer had even an  
20 alternative intention to his main, or original  
21 intention, and decides whether it has become in fact  
22 a scheme for profit making that has to be distinguished  
23 with investment which is not a scheme for profit making  
24 by shares, and more particularly the shares which earn  
25 a dividend.

26 MR. EDWARDS: One problem in connection with  
27 shares is that there are a lot of losses. If the  
28 profits were to be taxed, presumably the losses, in  
29 equity, should be allowed as deductions from other  
30 income. In the United States and Great Britain I think







1 the deduction of losses has been limited, but I think  
2 that would seem to be a case of the matter working only  
3 one way, against the taxpayer, whereas if in the  
4 case of securities, certainly in the history that we  
5 have had in the last few years, there would be a much  
6 greater chance of losses than in the case of real  
7 estate.

8 MR. STEWART: I observe that one question you  
9 raise on page 4 is whether consolidated returns should  
10 be permitted. Now, curiously enough, we have had  
11 similar sessions this week with a number of other  
12 bodies, including the Chamber of Commerce, the  
13 Canadian Manufacturers' Association, and the  
14 Institute of Chartered Accountants, and if my recollec-  
15 tion is correct, yours is the first brief in which this  
16 question was raised.

17 I wonder if you have any strong feelings on  
18 this particular point?

19 MR. HULBIG: If I recollect our deliberations  
20 on the point, it seemed that inasmuch as an overall  
21 review was being given to the whole subject, that this  
22 was a point which might again be considered, and it did  
23 seem that there was some point in consolidation of  
24 returns, even at the cost perhaps of a percentage  
25 point or so.

26 MR. EDWARDS: I think that really is related  
27 to the point about reorganizations in one way, and that  
28 is that you sometimes have a group of companies under  
29 common ownership, and one of them has losses, and  
30 another has profits. The question is whether it is





1 equitable and desirable that the losses in the one  
2 organization should be set off against the other.  
3 Normally, as people get into this situation they  
4 endeavour to rearrange their affairs to transfer the  
5 profitable business into the loss company, but sometimes  
6 that is difficult, or undesirable for business reasons,  
7 and sometimes they don't know about these losses until  
8 it is too late.

9 MR. STEWART: My recollection is that in the  
10 pre-1951 days you could consolidate only parent and  
11 wholly-owned subsidiaries. Would you contemplate that  
12 if the right to file such returns is restored it should  
13 be confined in that way, or do you think that the  
14 provision should go further?

15 MR. EDWARDS: I would think -- I don't know,  
16 we have not considered that, but I think that the only  
17 way in which we were thinking of this was that in  
18 cases where the ownership of the companies was all in  
19 the same hands, whether it was a parent and subsidiary  
20 or two companies with the same shareholders.

21 MR. STEWART: A little further down under  
22 that same heading you raise the question of a possible  
23 extension of the averaging principle. Could you indi-  
24 cate what types of cases you think that principle  
25 might be extended to?

26 MR. HULBIG: Well, it has been a question  
27 which was debated I think, I don't know how fully,  
28 but over the years, as to whether, with our high  
29 graduated rate of structure, and with income  
30 arbitrarily chopped into annual bits, for tax purposes







1 that is, and the year end does not necessarily have  
2 any connection with how you earn your income, or how  
3 much income is indeed earned, whether there should not  
4 be a wide extension of the averaging principle.  
5 Whether every individual should not have the right to  
6 have a moving average.

7 Take the legal profession, if you wish.  
8 A lawyer might receive a very large fee in one year,  
9 and not do quite so well over others. Is it fair that  
10 this fee, which may be the product of a great deal of  
11 work, and it is true, there are ways and means of  
12 spreading these things out, but should he be put to  
13 the test, or be obliged to use devices, if you will, to  
14 spread it out, in order to avoid the high tax rates for  
15 one year?

16 It is true that others, for example, have some  
17 limited protection, but you can look to authors,  
18 professionals in sport, and professionals of other  
19 types.

20 I think that is what we had in mind, the  
21 extent to which it should go, or the period over which  
22 it should be. We have not a conclusion at the moment.

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1 Now, to the extent to which it will go or how long  
2 the period should be we have not a conclusion at the  
3 moment.

4 MR. STEWART: I intended when we were  
5 discussing tax avoidance to refer you to the item at  
6 the top of page 4 in which you suggest that consideration  
7 be given to the correlation of the provisions of  
8 part 3 and part 1 of the Act so as to prevent the  
9 possibility of tax avoidance by distribution to non-  
10 residents. Now, could you indicate to the Commission  
11 what type of situation you have in mind there?

12 MR. EDWARDS: Well, Mr. Chairman, under  
13 part 1 of the Act the rates of tax are considerably  
14 higher than under part 3 where the average rate is  
15 about 15 per cent. Now, in some instances it is  
16 more desirable or, at least, it becomes obviously  
17 cheaper tax-wise to make a distribution to a non-  
18 resident than it does to a resident. That may lead to  
19 a consideration of whether this is outside the legal  
20 field, as to what influence that has on foreign owner-  
21 ship of Canadian enterprise.

22 There are also, I think, certain loopholes  
23 in the Act under which, for instance, a Canadian company  
24 can be converted into a non-resident company and make a  
25 distribution to non-residents entirely free of tax.  
26 It seemed to us that paragraph 3 is really a self-  
27 contained unit and possibly should be considered by the  
28 Commission in relation to part 1 so that uniformity of  
29 treatment would apply as between residents and non-  
30 residents.







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1 MR. LEMAY: That brings in what you are  
2 referring of piercing the corporate field to determine  
3 where the mind and management of that foreign  
4 corporation is and who should be taxed at what rate.

5 MR. STEWART: Well now, gentlemen, it  
6 has not been possible for us to deal with all the points  
7 you have raised in this submission. I realize that  
8 from what you have said in the earlier portion of  
9 your submission that you might not necessarily be  
10 dealing with all of these in your final submission and  
11 you also indicate there the possibility that you will  
12 deal with matters which are not referred to here.  
13 May I simply refer in that connection to the  
14 questionnaire which I think you have from the Commission  
15 which is memorandum to Participants numbered 10 in  
16 which a considerable number of tax structure points  
17 are raised and say that if you find that it is  
18 convenient or worth while for you to deal with such of  
19 those points which have not been covered in this  
20 submission it would obviously be helpful to the Commission  
21 to have your views.

22 Mr. Chairman, unless you wish me to continue  
23 I think perhaps we can leave this submission at this  
24 point.

25 THE CHAIRMAN: Thank you very much,  
26 Mr. Stewart. I think we have had a good go at it this  
27 morning and you have covered, I would think, the main  
28 points. I think I would like to say that there is one  
29 <sup>on</sup> matter/which I think you share our view, one of the most  
30





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1 important charges made to us <sup>in this</sup> ~~in this~~ matter of  
2 identifying and plugging loopholes in the Act. I  
3 think you would agree that the existence of loopholes  
4 causes taxpayers to place the Act in disregard, causing  
5 them to believe it is unnecessary to pay their full  
6 share of the tax levy. We will certainly do our best  
7 in this area and we hope we can look to your  
8 Association to assist us primarily by identifying loop-  
9 holes that do not stand out clearly. Members of the  
10 Bar have spoken publicly on this and I think in doing  
11 so they have rendered a public service.

12 We have not dealt with one section, sales  
13 and excise, of which I think you are well aware.  
14 Mr. Stewart and I would welcome any comments in that  
15 area which you gentlemen would care to make; we will  
16 still take the time to listen to you on that. I  
17 do not think it is necessary to put questions to you.  
18 I am glad to see you propose to report in this area.

19 MR. HULBIG: Mr. Chairman, we find ourselves  
20 at a bit of a loss because our expert in this field  
21 was unable to be with us today. I must apologize.

22 THE CHAIRMAN: Therefore, you would sooner  
23 not proceed further?

24 MR. HULBIG: Yes.

25 THE CHAIRMAN: Well, we are of course  
26 extremely grateful to you for coming along to what is  
27 really a preliminary hearing and we have had a most  
28 interesting and, I believe, useful week. As you know,  
29 we have had a number of groups such as yourselves  
30 discussing the task which we have undertaken and their .







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1 relationship to that task and there is no doubt to  
2 all of us that the Canadian Bar Association can be  
3 tremendously useful. Likewise, there is no doubt  
4 in my mind that you are seized with the importance of  
5 this work and you will do your best. I am only  
6 sorry your President was not able to be here today  
7 and I quite understand that he could not do so. There  
8 are good reasons for that but I think he would have  
9 enjoyed the session just as we have.

10 I sincerely thank you all for your  
11 attendance and your assistance.

12 MR. MERRIAM: Mr. Chairman, may I merely  
13 say on behalf of all of us how much we have appreciated  
14 the discussion that we have had this morning, the  
15 invitation that you extended to us to be present and  
16 the manner in which we have been received. I should  
17 also like to say to you that we would like to co-operate  
18 with you and with the members of your staff in every way  
19 that you feel we may be of assistance to you.  
20 Throughout the course of your deliberations and con-  
21 siderations if at any time the staff feel that there  
22 is something that they would like that we might say  
23 or might be able to get for them, we should be only  
24 too delighted to do so.

25 THE CHAIRMAN: Thank you, we will bear that  
26 in mind. Reciprocally, if you or any of your members  
27 feel there is anything which we have which would be  
28 useful to you please, communicate with us.

29 Mr. Bennett, is there anything further this  
30 morning?





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THE SECRETARY: No, Mr. Chairman, this concludes the business before the Commission here this week. The Commission, as you know, reconvenes in Montreal at 9.30 o'clock on Monday, April 22nd but we will be here again in this courtroom on May 27th to hear local persons.

THE CHAIRMAN: Thank you, the hearing stands adjourned.

---Adjournment.



















